MONEY *versus* MAN

A STATEMENT OF THE WORLD PROBLEM FROM THE STANDPOINT OF THE NEW ECONOMICS

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MONEY *versus* MAN

PROFESSOR F. SODDY

"Consumption absolute is the end, crown and perfection of production; and wise consumption is a far more difficult art than wise production.

Capital which produces nothing but capital is only root producing root; bulb issuing in bulb, never in tulip; seed issuing in seed never in bread. The Political Economy of Europe has hitherto devoted itself to the multiplication . . . of bulbs. It never saw nor conceived such a thing as a tulip.

This being the nature of capital it follows that there are two kinds of true production, always going on in an active State; one of seed and one of food; or production for the Ground, and for the Mouth; both of which are by covetous persons thought to be production only for the granary; whereas the function of the granary is but intermediate and conservative, fulfilled in distribution; else it ends in nothing but mildew and the nourishment of rats and worms.

The wealth of a nation is to be estimated only by what it consumes.

As consumption is the end and aim of production so life is the end and aim of consumption.

THERE IS NO WEALTH BUT LIFE."

Unto this Last. John Ruskin. 1862.

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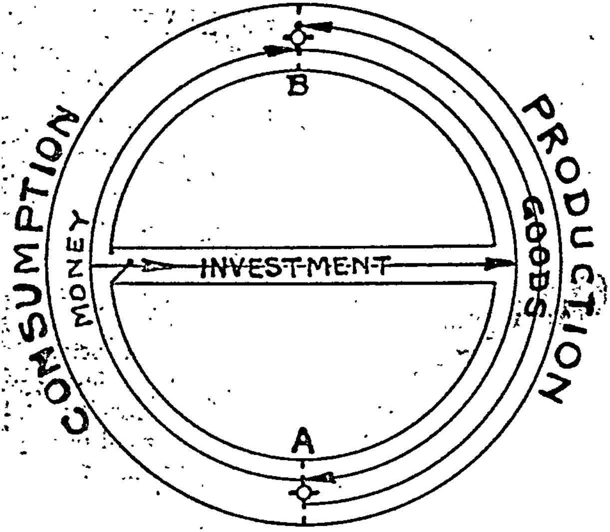

GOODS ARE PRODUCED BY PAYMENT OF WAGES ETC AT 'A' AND DISTRIBUTED BY SPENDING THE MONEY AT 'B'. BUT THE TIME TAKEN BETWEEN EARNING AT 'A' AND SPENDING AT 'B' IS SHORT COMPARED WITH THE TIME OF PRODUCTION OF GOODS FROM THE START AT 'A' TO THE FINISH AT 'B'.

DIAGRAM OF THE ECONOMIC CYCLE

(*See p. 64*)

MONEY *versus* MAN

CHAPTER I

THE NEW ECONOMICS

THE AGE in which we live is scientific. 'Four out of every five of the people now alive in this country owe their existence to science and would starve if it were to revert to its former regime. Dangers are crowding thick and fast upon the scientific civilisation. Its problems call for fearless and original scientific thought if it is to survive and triumph. It has been left too long in peril of shipwreck—at the mercy of medieval and obsolete ideas.

The harnessing of the inanimate power of fuel and waterfalls to do the work of the world has abolished the iron law of scarcity of Nature. Poverty has been for long in this country a purely artificial condition, which it is becoming increasingly dangerous to enforce. The engine of modern production is so powerful that, when it gets going, those in charge become afraid of it and of what it will do. Instead of putting in the clutch and letting it do the world's work, of which there is, to be sure, a plentitude crying out to be done, they get scared and turn off

the fuel or the ignition. Absorbed in frenzied efforts to prevent it from stopping and to get it to start up again, the world is in danger of forgetting altogether what production is for, at any rate in peace time.

Fear of what science is going to do to the world is, from the standpoint of those who, hitherto, have had the direction of it, only too amply justified. For their sort of world and science cannot co-exist. In the past ages of economic scarcity as the law of life, civilisation was of necessity based upon some sort of slavery, however ameliorated or disguised. In an age of plenty, if it is ever allowed to come, that slavery would be transferred from men to machines. To resist it is but to make men the slaves of machines, and the world their sport.

A moment's thought is sufficient to reveal that any condition of universal abundance must be something quite different from what prosperous people to-day regard as affluence. It requires a good deal more than a moment's thought to form any picture of what it would mean. But the longer the possibility is contemplated the clearer it must become that *nothing* could remain unchanged in such a world. In that is the key to the riddle. It explains at once the apparently stupid and wanton refusal of nations to use the good gifts of science in peaceful construction and the whole-hearted and single-minded purpose with which the clutch is let in and the throttle opened all out for destruction. In the alarming and novel sort of world we live in now it is clearly little use trying to take it at its

old valuation. One is more and more forced to regard it as a new phenomenon. No doubt poets and visionaries have always recognised, in a mystical and allegorical sense, the essential unity of the life of man and of the animal and vegetable kingdom with that of inanimate nature,—sunshine and water-fall, fire, tempest and the round of ceaseless change. The fancy has come true. Life is increasingly being bye-passed as a means of life. More and more men reach out and consciously draw upon the abundance of inanimate energy in Nature for the maintenance of their lives, and are so empowered to perform tasks formerly beyond the capacity of life in any form.

By solving thus the problem of the satisfaction of his needs, men are for the first time realising what these are,—what, in fact, wealth is. How different is the reality from the sweepings of the mouldy ages, the pawky observations upon the interplay of human necessity and greed, which, in these days of artificial poverty and actual glut, still passes as the science of wealth! This "New Economics" is the science of wealth. The old is, rather, the science of want.

Men's needs are as varied and intricate as the network of pipes and cables, and all the appliances connected with them, which constitute the gas water and electricity systems of the modern world. But, like them, they have a common interpretation. Their purpose is to direct energy and materials from where they can be obtained to where they are required, and to transform them into the qualities

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and kinds capable of doing the work, performing the services, and making the things required by the life of the community. All the necessities of men are, in the ultimate analysis, satisfied by the expenditure or consumption of available energy. Science, by enslaving the forces of Nature, offers freedom to men. The gift is being vehemently and fanatically refused, but the alternative is chaos.

This book is written in the belief that economic sufficiency is the essential foundation of all national greatness and progress. It is held increasingly by those with actual experience of the effects of want. The eugenist, in so far as he ignores this, neglects one of the fundamental factors in his subject. Frequently he appears to ally himself with superficial people, who, being well provided for themselves, affect to despise wealth and fear its effect on others. The crime being perpetrated to-day is not the mere waste, or worse than waste, of wealth, but of the opportunity it affords to build up a type of civilisation nobler and more humane than was possible in a world held in the grip of, and limited by, want.

No discovery in history has been fraught with such swift fundamental alteration to the fabric of human society and the nature of social interrelationships as the substitution of inanimate energy for animal labour in production. At first sight it would seem that nothing but good could possibly result from so great a boon. The very goal towards which, from the earliest dawn of civilisation men have persistently striven, the lightening of the labour

involved in living, was thus attained almost miraculously at one bound.

Whereas the actual results so far have been in many vital respects nothing but disastrous. A large and increasing proportion of the workers in all industrialised communities are being deprived of their livelihood and with it of their right to consume by the growth of the new scientific methods. Avowedly and intentionally these are adopted for the purpose of saving labour, and they save it. Could any result be more natural or expected? Yet the problem of unemployment is not usually so directly and bluntly accounted for! In seeking the cause the world resembles nothing so much as an ants' nest that has been sat upon.

It used to be argued that this cause could be but temporary, as those displaced by labour-saving *machinery quickly find employment in developing* the capital required by further new inventions and labour-saving processes. But as Ruskin pointed out the best part of a century ago, this is exactly like re-sowing a harvest over and over again—'seed issuing in seed never in bread,'—producing harvests increasing at compound interest, and completely forgetting the only purpose and object for which the harvest is grown. Labour-saving methods create leisure. For an initial period only can the displaced labour find occupation in creating the capital required to develop new enterprises, because in turn as these come into operation they displace yet more labour, and the effect is cumulative as events show.

It should be obvious, but has indeed only been latterly appreciated, that as men lose their employment and can no longer buy the goods which they are no longer required to make, the home-market must continuously shrink from this cause. As capacity to produce increases demand shrinks. It is not enough that people urgently need the very things that cannot be sold. There must be what is conveniently termed "effective demand", which means demand backed by the ability to pay, and those whose incomes dry up by loss of employment cannot pay.

In the era now closing, the titles to consume the product more and more found their way into the hands of those who owned the new capital organs of wealth-production, whose actual consumption needs were fully supplied, who desired to defer their titles to consume to the future,—to lend their surplus and create debts against the community. In this way they sought to secure a permanent lien upon the future revenue of the community without any further contribution to its production.

For many years, now, the problem of producing wealth has been essentially solved. There is no difficulty whatever in producing wealth in accordance with national requirements and demands, or in exchanging it by way of barter with that more favourably produced abroad. Everywhere there is a glut of wealth, intense competition for markets, and the conditions which, in times of peace, produce congestion of the economic system and ever-growing

unemployment among the workers, lead also and will continue to lead to periodic world wars. These wars in their origin and consequences are the exact opposite of those waged in earlier history. Nevertheless, as science ever increases the destructive power of men, they will, if not prevented, end in destroying the scientific civilisation altogether.

The problem that is not solved and which must be solved quickly, if civilisation is to be saved, is the problem of distributing the wealth that now by scientific knowledge can be so plentifully produced, not for the yet further increase of productive capacity in the future, but for consumption and the satisfaction of the economic needs of the individuals that make the community. The industrialised and the agricultural workers in this country, as the statistics collected by health and poor-law officials during last century showed, have been physically demoralised by their economic conditions. The military statistics collected during the War but reiterated this conclusion, and the War itself showed, by contrast with the superior stamina and physique of the overseas contingents, that our people suffer to a dangerously prevalent degree from actual malnutrition and economic insufficiency!

The unemployed, but for the expropriatory taxation levied on the well-to-do, would starve. As it is they only half live. They consume less and less as a right and more and more as a charity, and insecurity of livelihood saps their independence and morale as poverty undermines their health and that of their children. The submerged tenth of the

nineteenth century ever grows. Though ameliorative legislation may have reduced the actual intensity of their individual sufferings, the proportion affected increases. This is occurring in an age in which science has already abolished the physical necessity for poverty. The penury of the masses accompanies, as ever, and enhances the relative wealth of the few. This is not national wealth, but the reverse. It is only too clearly indicative of national decline and decay.

It is always instructive first to eliminate money altogether from an economic question as a merely intermediate factor, and to reconsider the problem simply in its ultimate aspects. If we do this to-day, we shall be forced to the conclusion that under democracy there is no effective government whatever. For we have on the one hand invention and technical skill at a high water mark, never even dreamt of in any former age, an accumulation of industrial plant and machinery equipped with the most powerful and time-saving methods of production and a highly skilled army of workers of all grades, together with more abundant natural resources, more efficient means of transport and communication than ever before in the history of the world. All is, to a large extent, idle and in decay, both men and machinery, because of the failure of the distributory mechanism.

To anyone who has ever penetrated even a little below appearances and can understand the elements of the principles which underly the provision of economic needs, a people in which involuntary

unemployment, both of men and machines, co-exists along with acute and chronic poverty and destitution is in no sense a nation or a community but an anarchy. Its ostensible government is not its real government. In the most vital affairs of its economic life it is leaderless, impotent and doomed.

CHAPTER II

MONEY, WEALTH AND DEBT

WHILE recognising to the full the social changes that were bound in time to follow the mechanisation of production, the immediate effects upon the great mass of the workers could not have been so damaging and disastrous as they have proved, but for the complete failure of the monetary system, which till then had sufficed to deal with the old scale of production.

The distributory mechanism of an individualistic community is its money system. Money distributes among individuals the revenue of wealth of the community. No individual to-day is capable of producing by himself all that he consumes or uses either in his private life or in the conduct of his avocation. It is only in the rudest and most primitive stage that such a condition is even conceivable. Hence some form of monetary system, or equivalent distributive mechanism, is the first stage in the evolution of society from the primitive state. The production of wealth becomes increasingly communal, but the consumption and use of it remain individual. There is no other ultimate purpose but individual consumption and use in production, and the returning of wealth to the economic system to increase the

production is only useful as an intermediate step towards increasing still further the consumption.

The most profound students of the subject have been the most acutely aware, that, indispensable as money is, it brings with it insidious dangers to the very life of societies which may, as now, end in defeating the object of its existence. It is still, as it has always been, the Achilles heel of civilisation, ancient and modern alike. The century that has come and gone has witnessed a practically complete reversal in the nature of the monetary system in this country, from a public system with money issued by the supreme authority of the realm to make possible the distribution and exchange of wealth, to a private system with money, or its complete equivalent, issued by private people and created by them to lend at interest.

These innovations grew up *sub rosa* and without any definite national sanction, and it is only since the War that it has been impossible any longer to disguise their real character or to be blind to the open menace they throw down to all duly constituted law and authority. The principles that govern the present monetary system of this country are diametrically opposed to the ordinary principle of justice and equity to which every public monetary system has conformed. They are different from the principles of bad or counterfeit money, as commonly understood, only in the enormous extent and capriciousness of the money privately uttered.

To-day over 97% of the total money owned by the individuals of the nation is privately issued,

and by far the larger part of it has no tangible existence whatever. It represents a debt of goods owed to the individuals who own it, by the nation, enforceable by the law, which has, without the sanction of any national authority, been quietly added to the burdens of the nation by methods that resemble the tricks of the conjuror. During inflation, as occurred at the end of the War, hundreds of millions of pounds are, by these methods, uttered at the direct expense of the other owners of money, to anybody giving evidence of an ability to repay, and willing to pay interest on the pretended loan. During deflation, as now, the arteries of the nation are sucked of their life-blood by the deliberate attempt to destroy equally large aggregates of money. In light of present knowledge and experience the system appears as high treason against the nation, a monstrous cancer invading its heart and turning to evil the good that might reasonably have been expected to follow the solution of the problem of wealth production.

This, in the author's analysis, is the immediate cause of the economic deadlock, but, as it is artificial, unnecessary and anti-social, an imposition on the credulity of the community, it is remediable. There are more permanent and deep-seated factors than the monetary system. The error which interprets the whole age is the ignorance of the real nature of wealth and the ruling passion to treat it as something to lend at interest rather than to use and consume. This is the real antagonism between the conception of universal wealth and relative wealth,

that wealth unfits men for labour. Sismondi poignantly stated this aspect—"Thanks to the advance of industry and science every labourer can produce every day much more than his consumption requires. But at the same time, whilst his labour produces wealth, that wealth would, were he called upon to consume it himself, make him less fit for labour. Exertion to-day is separated from its recompense; it is not the same man that first works and then reposes; but it is because the one works that the other rests."

Grant, for the sake of argument, the problem of the distribution of wealth to be solved as completely, by a scientific money system, as the problem of production, so that there is no want of a sufficient abundance of the physical necessities and amenities of existence. Such a community would be wealthy in the true sense of the word. But none would be rich in the relative sense, which is the only one in which people use the term to-day. The work of the world must be done as a public and professional service. For no one would be able to take advantage of the misery of the poor to command their labour and service in their own aggrandisement. This, as Ruskin pointed out, is a consequence as much of the poverty of the many as of the riches of the few. To him, as to the rest, it was wealth, but, to the new economics, it is not wealth but debt.

Between the wealth of nations and that of individuals there is the clearest of antagonism. An age of universal plenty, therefore, foreshadows an entirely new type of civilisation, which cannot

co-exist with the old. Instead of civilisation being compelled to maintain itself and progress in the teeth of the law of scarcity, poverty and scarcity are now being prolonged to bolster up the original type of civilisation. The whip and spur, the bit and reins are being used to drive what, from being a stage coach has evolved into a motor car. If it is to escape disaster, the driving controls as well as the motive power will have to be completely changed.

Now it is one thing for science to make some relatively much richer than others, and quite another, without even a by-your-leave, for science so insidiously to undermine the established order of human society as to put all beyond the persuasive influence of want. There are many neither unimportant nor over-scrupulous people, if not the majority of the most forceful and successful people in the community, who would probably quite openly side with no civilisation at all rather than a, to them, so thoroughly uninteresting and objectionable one. Some have in fact already scented the danger. It used to be only the genuine artists and æsthetes who railed, quite ineffectively, at the growing mechanisation of the age. But when the tide turns, and science by making the poor richer makes the rich relatively poorer, the movement to break up the machines and revert to hand and serf labour is likely to receive some very unexpected and effective recruits.

But there is no turning back. Unless the majority are to starve, the world has to make a success of the civilisation to which it is committed. Distance lends

that wealth unfits men for labour. Sismondi poignantly stated this aspect—"Thanks to the advance of industry and science every labourer can produce every day much more than his consumption requires. But at the same time, whilst his labour produces wealth, that wealth would, were he called upon to consume it himself, make him less fit for labour. Exertion to-day is separated from its recompense; it is not the same man that first works and then reposes; but it is because the one works that the other rests."

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out, a very definite limit to the possible extent to which this can be done.

It may comfort him to try and think that his wealth still exists somewhere, in some form, as "capital", but as a matter of fact it was consumed by those to whom it was lent and who produced the capital, and wealth, no more than food or fuel, can really be consumed twice.

The capital exists and may continue to exist a long time, according to the rate at which it depreciates or becomes obsolete, but rarely only would the creditor take it back in settlement of his debt, for the sufficient reason that it would in general be quite useless to him. He must have fresh wealth, not the product of consumed wealth, in order to live, and however hungry, no man can eat a plough.

Actual ownership and possession of wealth to private people, beyond a certain maximum limit, is an encumbrance and source of expense and anxiety, and is only rarely a means of livelihood. What they desire is not wealth, but debts that do not rot, that are not expensive to keep up and which bring in perennial interest. Individual wealth more and more tends to take the character of legal instruments and agreements—such as money, national debt, loans to and investments in industry,—which determine the distribution of the national revenue as among individuals. In studying the wealth of nations as distinct from that of individuals, it is necessary to start at the beginning and not at the end.

ichantment to the past. The present is ugly enough, ut possibly not quite so ugly as the real past which tries to imitate. The future holds out hopes, of which, till now, only visionaries and poets have been permitted to dream, if it can escape from the pattern of the past and begin to build anew. The first step to that end is a scientific monetary system. But there remains to be developed a true science of national and international economy on which to educate the world for wealth.

Less and less does actual ownership of possessions constitute riches. More and more is individual wealth derived not from owning but from lending or having lent. The wealthy of to-day are not wealthy in the fashion of the ancient pastoral patriarchs, the medieval feudal barons, or even the old landed aristocracy, in that they do not own wealth but debts. There is a real conflict here between the laws of Nature and the physical necessities, apart from the avarice and ambitions of men, better perhaps recognised by the Hebrew prophets than by the modern economist.

Wealth perishes, but debts, being legal claims to future wealth, appear to afford a means of dodging Nature. An individual could not even amass or accumulate the wealth required for the maintenance of his old age, or to start his family in life. For it would rot. He is practically forced to find a means of getting repayment at a later date. He has to let others spend his savings, in the hope that he may later share in the harvest of what they have sown. But there is, as people are beginning to find

near future to the same logic being applied by the Chancellors of the Exchequer to the furniture as is now applied to the house, and to the owner of a house being taxed on its rental let furnished instead of unfurnished.

Before, however, they are reduced to such lengths in balancing their swollen budgets, it is to be hoped that they may be enabled, by the help of the studies in national rather than individual economy, which form the subject of this book, to do something more substantial in the other direction. As shown in a later chapter, a hundred millions a year could be immediately knocked off the national taxation as a start, by the correction of a slight error in accountancy, natural perhaps in the general confusion of these transitional times, but hopefully for the future remediable at any time.

So that it comes about that by far the great part of what the modern world regards as wealth, and what is a perennial source of wealth to individuals, is not wealth but a consequence of lending or having lent wealth, and is in fact a form of national or communal debt. The intense competition for foreign or overseas markets in time of peace, aggravated by the home market drying up through the loss of purchasing power of the unemployed, is not due to any altruistic or missionary spirit of the industrialised nations in wishing to unload of their abundance for the enrichment of the newer and less industrialised nations, but to the necessity of finding new debtors, with good future prospects of being able to pay interest, to whom to lend their wealth. The

The original wealth it represented may have been totally destroyed at the time the debt was contracted, as is the case with the national debt; it may never have existed at all, as is the case with paper and non-existent money, or, as is the case with industrial capital, its consumption may have left behind something of purely intermediary use in the creation of new wealth, but almost or quite useless if the creation it renders possible should cease, either by its wearing out, becoming obsolete, or by reason of people not wanting or being able to buy the product.

The older forms of property, such as land and buildings, the ownership of which constitutes the chief form of individual wealth in an agricultural as distinct from an industrialised community, are by comparison, more generally and permanently useful products of the wealth expended in their reclamation and construction. But even these are now less and less farmed by their owners and are more and more let or lent to tenants for rent. They furnish curious instances of the confusions of this age of transition.

People who own the houses they occupy, for example, are regarded by the law as lending or letting them to themselves, and are required to pay income tax on the rent they are supposed to receive, the same as if they had let them to a tenant. With the growth of the National Debt and the spread of the hire-purchase system,—both, by the way, admirable *instances of* the results of the ruling passion to convert wealth into debt in order to derive an income from it—we may confidently look forward in the

near future to the same logic being applied by the Chancellors of the Exchequer to the furniture as is now applied to the house, and to the owner of a house being taxed on its rental let furnished instead of unfurnished.

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prospects and capacity of those at home in this respect diminish steadily as the days go by.

The modern wars that break out between industrialised nations have a precisely parallel explanation. Then the belligerent nations rather than individuals shoulder the debt. The glut of wealth, that in time of peace cannot be profitably exchanged, is now owed for as it is produced by the nations as such. Along with the flower of the country's manhood, it is destroyed as rapidly as the most powerful modern engines of destruction allow. The dead do not return, but the wealth destroyed discards its corruptible body to take on an incorruptible. It is national debt, better than wealth to individuals, a permanent source of wealth, defying the passage of time and the ravages of rats and worms. It needs no very profound analysis to reach the conclusion that the most significant economic consequence of modern war, the increase in the national debt, explains its cause. Affluence has but turned men into misers who will lend but will not spend, and the most humiliating spectacle of the age is that its best minds are devoted not to the building up of a nobler civilisation, but to a chimera, how to convert the wealth that perishes into debts that endure and bear interest.

CHAPTER III

WHAT IS MODERN MONEY?

A MONETARY system should, as we have seen, distribute communally produced wealth for individual consumption and use. With our monetary system, this, which should be the only purpose, has been reduced to a secondary, incidental and almost accidental rôle. The primary purpose for which money is issued in this country is to lend so as to make it bear interest. The ruling passion that makes all men misers has over-reached itself here in a theoretically highly curious way though the results are tragic enough in practice.

The general ideas and modes of reasoning, which, in the nineteenth century, resulted in that great clarification of the physical sciences, by which practical engineers have been able to solve, to all intents and purposes, the problems of production, have been suitably applied by the author to elucidate the nature of money. In negative form they are expressed by the Latin motto " Ex nihilo nihil fit ", from nothing nothing comes. In positive form they are known as the laws of conservation of matter and energy, a general knowledge of which is now as widely diffused as the knowledge of reading and writing.

It is true that twentieth century science, since Einstein's Theory of Relativity, attempts the fusion of the two laws into one. It is possible that energy and matter may be equivalent at a definite exchange ratio, just as Joule showed, a century ago, was the case for heat and work or any other form of energy. If so, one law will do for both.* But this is as yet only a view, for the actual conversion of the one into the other has yet neither been proved to occur, nor can it be practically carried out. Whether true or not, it does not affect the argument. There is altogether too much transcendental mathematics about money as it is.

The common-sense of these laws is that a perpetual motion machine is not possible. To produce wealth energy must be expended or consumed. Consumption here does not, of course, mean total destruction, any more than when we speak of the consumption of fuel or food, but conversion into useless waste products. The product of the consumption of energy is heat of temperature too low to be of use. It is not of fundamental importance, though it may be practically very important, whether the work required to produce wealth comes from a man, a donkey-engine or any other prime-mover. We have seen that this age has been made possible by the substitution of inanimate energy for animal labour in production. A single machine to-day can undertake as much actual labour as a community of a million labourers working in three shifts of eight hours a day.

* Compare, for example, *The Mysterious Universe*, Sir J. Jeans, 1930, Camb. University Press.

To this common sense truism that, in the world ruled over by physical laws, it is impossible to get something for nothing, modern money is an apparent outstanding exception, the elucidation of which throws a flood of light on the nature of money and suffices to rob it for ever of its robe of mystery—and let us hope, of its power of evil. Money to most people still conveys the idea of coins, but, except as small change, coins are obsolete. In so far as modern money has any tangible physical existence, and by far the greater part has none, it is a paper token, which like a postage stamp, costs next to nothing to make, and which has some value printed on it. Its owner for the time being is entitled to that amount of wealth in exchange for it. Strictly he is empowered by the law to make any creditor take it as legal tender for that amount of debt, which in practice comes to exactly the same thing.

But most money nowadays has no existence except as a statement of account or bank-balance upon which the owner draws by cheque. The difference between the amounts paid in and paid out is a *sum of money* which the owner owns, but the money does not exist. What is paid out of one account is paid into another, and this is done as a book-entry without any money at all. A relatively small amount of paper tokens suffices for the owners who need "cash". The cheque system is in itself a great advance upon the use of tokens in many ways. But its invention has resulted in the banks, not indeed coining money as that is quite unnecessary,

but of creating money, without even the issue of printed notes, which they lend at interest to those who will pay interest on the pretended "loan".

Coins, in reality are tokens like paper money, but differ in that the token itself is not entirely valueless. If melted and sold, the bullion or scrap metal would fetch the whole or part of the nominal value of the coin, if bartered for other goods. But this is an offence, so that even if they are made of precious metals of full value they are tokens merely. Since the War, gold coins, which contained a weight of gold equal in value to the coin, have ceased to be current, and the quantity of silver in the alloy used for silver coins is now but a small fraction of their value. They are a curious relic of a once public currency, for they are still issued by the State Mint, and carry the image and superscription of the reigning Sovereign. But under democracy the prerogative of the issue of money *has* been usurped *by* private financial companies, and the State money is reduced to a trivial proportion of the whole.

So far as the point referred to is concerned, it matters not at all whether the money in question is issued by the State, a bank or a counterfeiter.

The issuer of money, who first puts it into circulation, cannot help getting something for nothing, namely the exchange value of the money.

So, not in the twentieth century to make a pretence that there is anything really mysterious or miraculous about the operation, or that practical economics has a special dispensation from the laws of conservation, the problem is to find where this wealth come

from. The quantity is not inconsiderable. In this country it is equivalent to well over £2,000,000,000. To answer the question, it is only necessary to contrast a purely hypothetical community, without a monetary system, exchanging its goods by barter, with our present system, or, better, to presuppose the first condition and from it evolve our own.

It might occur in some such way as this. A has leather and B has flour. A wants flour and B, though he does not at the moment require leather, has more flour than he needs and is willing to supply A in exchange for a simple I O U, a paper note expressing the fact that "I, A, owe you, B, so much ——." The quantity owed might be either flour or leather, if B had indicated he would later be requiring leather. But if, more generally, the note ran "I, A, owe you, the owner of this note, goods equal in barter value to so much flour", B, if he wanted, say, nails, could exchange it with C, who produced nails, and thus confer upon C the right, at his own convenience, of exchanging it with A, for flour. A would then destroy the I O U he had given. Not only A, but B, C . . ., and the whole business community might get into the habit of doing business in this way.

The difference between such a system and a modern money system is simply in the growth of the understanding or convention that the I of the I O U is not any one individual, but all the individuals, who agree to accept such notes as "legal tender" for payment of debts and that, in countries on the gold standard, the quantity owed is some definite

weight of gold. Then instead of A tearing up the note he had given when he recovered it—as it before expressed the entirely redundant information how much A, as the holder of the note, owes himself—and B, C . . . doing the same with their notes in similar circumstances, they do not tear them up, but pass them on *for ever and ever.*

We may pause to enquire at this stage the reasons which make the community prefer such notes to goods, which are identical with those which in this country cause people *not* to own over £2,000,000,000 worth of goods, but prefer claims to them, which, as regards any individual, could instantly be exchanged upon demand for goods. It is simply that they do not know either what goods they will want next or in what quantities. Also they do not want to possess more than they need because it rots, or, at any rate, costs them something to look after. Production being communal, individuals have to *go without* part of the wealth they are entitled to for money, that is they must have valid claims upon the goods of the community for sale in the market in order to obtain what they need as they need it. *It is this wealth the issuer of money gets for nothing.*

Clearly once a monetary system is got into operation it will function indefinitely, the money circulating from one individual to another without ever being called in again, and it will create indispensable facilities for the exchange and distribution of goods and services. But *how* is it started? There must be some central authority, bank or counterfeiter, to issue the money and receive in exchange the

wealth the citizens are compelled to give up for nothing but the paper claim to it. So far as the accounting goes, it is clear that the citizens are owed for what they have given up. The interesting point is "Who owes for it?" Clearly it is *not* the issuer of the money, for it is in the nature of the transaction that if he repaid the citizens back the goods they give up, it puts the money out of circulation and reduces the issue to an absurdity. The citizens do not want to return to barter, but they do want the goods back in exchange for their money *from one another*, those with money and no goods wanting goods from those with goods in exchange for money.

So that it is clear that money is a peculiar and special form of debt, quite different from those contracted by people who lend in return for periodic interest payments and the ultimate repayment of the principal. It is a form of national debt, owned by individuals, which is legal tender in exchange for the goods of any citizen who wishes to sell them, and then in turn becoming legal tender for what the new owner wishes to buy. Clearly the profits of the issue of money should belong to the community. A counterfeiter issuing money is punished if convicted for treason rather than for theft. But the banks, by the cheque system, have invented a means of issuing money without coining it or even issuing a bank note, and this form of money in quantity makes the whole of the rest insignificant. They have received in exchange for it the community's goods, which have been consumed by the persons to whom

....money, and they are owed by these borrowers for what the community has been compelled by the issues of money to give up. The money so issued passes into the hands of private individuals and is owed to them by the banks as a current or cheque account. But the banks have not the money, as it has no physical existence, and could not repay it if it were demanded. They hold only the securities deposited with them as cover by those who in turn owe the money to them.

The nature of modern money and how it comes into existence will be clear to the uninitiated from the former description, so far as concerns a paper note. In the case of the non-existent money of bank balances, the expense of printing or forging the notes, and of maintaining them in repair in circulation, is saved. But there is another and far more important and sinister reason why this form of money is now the chief part of the total. The periodic printing and destruction of hundreds of millions of money in the form of notes in the full light of day in the interests of industry might occasion outbursts from the buying and selling public alternately, rightly afraid of their money being debased in value, or of their businesses being ruined, as the case may be.

The great and sinister advantage possessed by a bank balance over any actual physical tokens is that it may be negative instead of positive without the public knowing what is really taking place, by arrangement between the bank and the current account holder. The banker allows a client, willing

to deposit security and pay interest on the accommodation at the bank-rate, to *overdraw* his account. This is one of the common methods by which a bank, in contradistinction to an individual, advances a "loan". But unfortunately for this interpretation of the transaction, a real loan does not challenge the law of conservation. There is no magic about it. What the borrower receives, the creditor gives up.

But the transaction considered has just that remarkable feature which arrested our attention as the invariable result of the issue of new money. No one consents to give up, or even knows that he has given up what the borrower gets in this case. The latter is empowered by the overdraft to go to the market and receive goods or services from individuals, without, as in a genuine sale or loan, the money with which he buys having been given up by somebody else. Before the transaction, the public owned a certain amount of money. After the transaction they own this plus the amount of the overdraft. It goes to increase the current accounts of those who sell goods to the person who receives the overdraft, and it is not taken out of any existing account.

It should require no great effort to-day for anyone after the experiences of the variations of money during the War, to master the calculation involved. Let us suppose that before receiving an overdraft of any sum, say £A, a borrower owns £$_o$ and the nation £X. After the borrower spends his overdraft—he would not borrow and pay interest on it to keep it tied up in his stocking—he owns £$_o$, owes £A, and the nation own £(A + X). The

debt in goods which the individuals of the nation owe among themselves instead of being divided among £X is now divided among £(A + X), with the consequence that each £1 is now worth in goods less than before as X : (A + X), or the price-index rises in the ratio (A + X) : X. That is, to say, instead of people thinking always that their goods are dear they should look upon it the other way, that their money is being debased, but more cunningly than was known to the notorious monarchs who used to put more base-metal into the coins.

It is always, of course, argued that the borrower actually does give up securities to the bank of greater value than the amount of the "loan". Actually he gives up nothing whatever. All that happens is that his securities are kept in the bank's safe instead of his own to protect *the bank* IF he should default. In this case the bank *then* sell his security and thus withdraw again the money they have issued. If the bank sold the security before they advanced the money there would be no new issue of money. But the owner can do this just as well himself without the bank. That is the trouble, for it means that of the three possible ways in which this great nation can get the money to carry on its services, from the State, the banks and individual counterfeiters, only the first now remains possible.

The facts are well known and in no dispute whatever. "Every loan makes a deposit"* is a

* *The Meaning of Money*, p. 63, Hartley Withers, 1922, John Murray.

sinister phrase invented by apologists for the system, which has been repeatedly endorsed by the Rt. Hon. R. McKenna, Chairman of the Midland Bank. The explanation, of course, is that what is called by the banker a "loan" is no loan at all but a creation of new money, if the "loan" is an entirely new one, or a continuation in existence of money previously so created if the "loan", having been repaid, is extended to another client. If it is not extended to someone else, then the money issued, when the "loan" is made, is destroyed again when the "loan" is repaid. Every such new issue of money creates a deposit in somebody's account. That is easy to understand. But the attempt to camouflage the operation by calling it a "loan" seems as pitiful as the stock plea of the defaulting embezzler when detected, which the judge trying a recent case so sternly held up to public obloquy.

In this way, well over £2,000,000,000 worth of wealth has been taken from the public and is owed to the banks by those who have borrowed it, and by the banks to their clients. In return, the banks' clients have their bank accounts often kept for nothing, and, if a national money system were adopted in place of the present private money system, presumably people would have to pay for having their bank accounts kept, as they have for any other service. From the invention of the cheque system to 1914, money was expanded by these means to the total sum of £1,200,000,000 of which at least one thousand million pounds was

of private creation. During and after the War it was relatively suddenly multiplied to more than double and, in 1920, was £2,700,000,000. The value of the £1 in goods fell almost in proportion, and became worth only about 8/- pre-War value. A few hundred millions only of the increase were due to national money in the form of £1 and 10/- Treasury notes. By the Bank Note and Currency Act 1928 under the last Government these were suppressed and replaced by Bank of England Notes. So that at the present time, out of a total of well over two thousand million pounds, only some fifty-eight millions are National or State-issued money.*

Before the War the new issues of money by the banks were limited by the right of the public to demand gold in exchange for paper money. Gold to the extent of a few per cent. had to be held in the country as a "backing" for the money privately issued, and if the value of money fell and prices rose so that it was cheaper to send abroad gold in settlement of debts rather than other goods, the drain of gold reduced the basis of "credit", and deflation or reduction of the total money was effected by calling in "loans" and not extending them. Since it is quite impossible to issue money on such principles without causing alternate rise of prices and consequent deflation and industrial depression, the history of the system has been one of boom following slump with the periodic regularity that has earned the special title of the "Trade Cycle".

* *This Age of Plenty*, Appendix, A, C. Marshall Hattersley, M.A., LL.B., 1929, Sir Isaac Pitman & Sons, Ltd.

It must not for a moment be supposed that by this system the money of the country and its standard of prosperity was increased as rapidly as it would have been under a scientific monetary system. The truth is that here as in many other directions the prodigality of science is such that progress was made *in spite of* antiquated laws, anti-social practices, and the amputation of the financial from the political government, which would have ruined any poorer age.

During the War, the right of the public to demand gold money was taken away, and the so-called "Gold-Standard Act of 1925" did not reinstate it, so far as the public is concerned. But persons engaged in foreign trade were thereby empowered to buy whole bars of gold of some 400 troy oz. weight for paper at the full pre-War value of the £1 sterling in relation to gold. The ostensible object of this attempt to return to a gold standard was to raise the value of the £1, which by the inflation during the War had sunk in value to less than half, back again to its pre-War amount. The many attendant evils that were bound to follow from, and have followed from this course, were perfectly well known to students of the subject as soon as it was mooted, and eight years before the public, who are now beginning to grow alarmed at the effects, understood what was proposed. It was known that prolonged industrial depression and grave increase of unemployment were bound to follow as the night the day, and that, if the attempt succeeds, the real burden of the National Debt, the

interest upon which amounts to over a million pounds a day, would be magnified in the same ratio as the value of the £1 in goods, was increased. It would seem almost impossible that this nation can be strong enough to survive the disabilities and burdens that are being piled upon it, ostensibly in the interests of "sound finance", really in the attempt to make two unsounds sound.

It is no answer to say that these consequences, indefensible as they are, were the natural result of the War. The financial measures instantly put into operation on the outbreak of the War were, of course, prepared to their minutest detail before. This kind of finance, by paying for the cost of preparation for larger output necessitated by war, out of the value of the existing money enables war to be financed without the peoples' consent, and that is no doubt one of the attractions. If the people could be relied upon to consent to the extent of paying honestly for the additional expenditure incurred, there is no reason why even wars should not be waged without debasing the unit of monetary value.

It was hoped that the Act would conserve the gold supplies, but on Sept. 3rd, 1930, they were £220,536 less than at the passing of the Act. The discrimination in favour of the foreign trader, when our home industries were so depressed, was probably incidental to the pursuit of the larger policy of increasing the War burden, rather than purely gratuitous. It has been submitted that the reason why the cheap sixpenny shops flourish in this country

CHAPTER IV

VIRTUAL WEALTH

IF ANY reader is interested in curiosities, he should look at one of the privately issued bank notes that have so quietly taken the place of the well-known Treasury notes or "Bradburys" issued during the War. He will notice that the King's head no longer appears upon it, and he should read, mark and inwardly digest its legend.

"Bank of England. I promise to pay the Bearer on Demand the sum of One Pound. For the Govr. and Compa. of the Bank of England."

(Compa. in full is Compagna, the company being originally Italian.) If his curiosity lead him further to present it at the Bank of England and demand One Pound for it, as the Bearer is clearly entitled to do, the Bank in full legal satisfaction of his demand would presumably hand it back to him! He has a legal claim to one pound's worth of wealth which he can exercise by buying anything on sale to that extent, and handing over the note as legal tender for the debt incurred. So what the Bank so glibly promises, they leave to the public to perform.

Thus has disappeared the last pretence that money is a debt against the issuer of it, instead of a mutual inter-indebtedness between the individuals of the

new issue or cancellation. Modern business is nothing but a tangled network of mutual contracts involving indebtedness on the one side and claims to be paid back in the future on the other. Every such contract is affected by alterations in the value of money in goods, or prices. The State insists on just weights and measures. The pound avoirdupois may not weigh 16 ounces one day and 6 of the same ounces another, and then go back again to 16, by people tampering with their weights or weighing machines. But during and after the War 12/- out of everyone's £ was taken and handed to other people, so that the £ was worth only 8/- of the former value. Now a debt of some £8,000,000,000 incurred during the War, is, by the attempt to bring back the pound to 20/- pre-War, in process of being converted to a real debt of approximately double what it was in terms of the pounds in which it was borrowed.

This, if you will, is straining at a gnat and swallowing a camel. It reduces to a hypocritical sham all the enactments and machinery to secure just weights and measures,—the solemn standardisation by the National Physical Laboratory, and the little army of inspectors going round stamping and marking every quart pot or other device by which things are bought and sold. For a variation in the value of money is tantamount to a similar variation in *every* unit of weight or measure. The State is vitally interested in maintaining an honest monetary unit as it is the basis of all commercial and business integrity. If variations occur on a serious scale, the

effect is to make any long term business contract or obligation impossible.

Nothing emerges so clearly to-day as the diametrically opposed interests of two powerful classes of people in attempting to alter the value of money, which on a universal scale corresponds exactly to what would happen if weights and measures were allowed to be tampered with. Buyers would want to make the yard, the pound or the pint larger and sellers smaller in their own interests and producers ever seeking "cheap credit facilities". So we have industrialists. What they mean is that they want the banks to issue new money abundantly and lend it to them at low rates of interest. They get the "something for nothing" on loan, merely paying interest not the capital sum they would otherwise have to raise. They profit twice because what they have so got for nothing, being taken out of the aggregate value of other peoples' money, causes all prices on the average to rise, and, when they come to sell the goods which the new issue has enabled them to start producing, over and above their ordinary profit, they get more in money for them than they have paid as wages and services for their manufacture. "Cheap credit facilities" is thus, in plain English, a double theft.

On the other side, there is the powerful "rentier" class, whose income is derived from fixed monetary payments, such as interest on debts, which, measured in goods rather than in money is directly proportional to the value of money. These demand "sound finance", which means they want the banks to

stop issuing "loans", to call in those they have issued, in order to lower prices and raise the goods value of the £.

In general it may be said that though variation in the value of money in either direction is an equal injustice morally, of the two, that done to the creditor class by debasing the currency is less injurious to the community, than that done to the debtor class by attempting to raise the value. Because the world's work is done by the debtor class, which embraces Labour and productive industry, who are in debt for the capital organs of production, and forced to pay rent and interest and in general to enter into long term contracts for definite money payments, irrespective of its value. The creditor class economically speaking is a burden rather than an asset. Under deflation, as now, the dead hand of the past, already heavy by reason of failure to provide adequate sinking funds to extinguish the growing indebtedness of the nation to individuals, is apt to become too grievous to be borne. France, Italy and Belgium have all stabilised their currencies at a fraction of their former value to lighten their War burdens, while Germany, Austria, and Russia debased their old currencies to zero, so wiping out their monetary indebtedness, and have started afresh with new currencies. We are the only nation heroic enough to try and double our burden.

The professional classes, who are remunerated for their services on monetary scales fixed largely by custom, suffer with the creditor class, if prices rise and the goods value of money falls. But, in the

balance, more actual interference with and damage to the life of the community results from deflation than from inflation. Nevertheless, to most people, low prices will seem a public benefit and high prices a public evil. The really vital consideration is that when prices fall below cost of production the flow of wealth ceases, whereas it is stimulated by high prices. For this reason in spite of the appalling conflict in progress, and of the shortage of foodstuffs, and in spite of grave injustice to many people, the economic life of this country during the War was, as a whole, ampler and healthier than it was before or than it is now.

If money were issued in the only correct way by the Nation, the services of the banks would be entirely superfluous and the function of Parliament, as in the maintenance of other standards, purely formal. The whole interest of banking is in incorrectly issuing money, and their skill, for what it is worth, is in subsequently "correcting", so far as may be possible or desirable, the inevitable consequences of their own action. They themselves produce the industrial evils which they are always, as now, being called in to prescribe for and cure, much as Rasputin is reputed to have done with the last Cesarevitch.

It is impossible under the system for the nation ever to have the correct quantity of money. It is always being "corrected". It was deluged in it after the War and now is being subjected to the last agonies of thirst for it. It is highly significant that the most remarkable consequence of the system is that banking continuously flourishes. Superficial

observers and professional apologists for its methods would have us believe that it is not science, invention, business enterprise, technical skill and efficient production which is the cause of the growth of wealth, but our peculiar system of "banking".

The casual observer, judging from the impoverished state of the majority of the community, the mean way in which they live and work, and the intense and increasing struggle they have had in the past century to preserve human characteristics at all, would scarcely conclude that the trouble for generations is not how to produce but to distribute wealth for consumption. He would be also quite at fault in concluding that the value of money is naturally a very uncertain and variable quantity.

What varies like a concertina is the total quantity of money, not the aggregate of goods this quantity will buy. The goods value of the £ varies violently because this aggregate is divided up among a continually varying number of pounds, thus making the value of each larger or smaller. The aggregate goods value of all the money in the country is far from being a capriciously varying quantity. It is, by its nature, a very conservative quantity, changing only gradually and regularly.

It is convenient to have a term to represent the aggregate of goods in general which all the money in a country will buy at the price level prevailing. The author calls this *quantity* the "Virtual Wealth"* of the country for reasons about to be explained.

* *Wealth, Virtual Wealth and Debt*, F. Soddy, 1926, Allen and Unwin Ltd.

But it is to be at once understood that though this measures the quantity called the virtual wealth, it is not the virtual wealth and it does not explain it. An arbitrarily fixed weight of gold measures, or used to measure, the value of the £, but it does not explain it or throw any light on the question as to how many pounds of this value can be issued in a country. Whereas the virtual wealth is a conception that really does explain as well as measure the value of money. The quantity is a definite quantity of goods, viz. that which could be bought with all the money if the prevailing price level did not change, but it is not a positive or existing quantity of goods at all. It is a negative or owed quantity.

The virtual wealth is all the wealth the people of a country voluntarily *prefer to give up*, though entitled to it, in return for money claims intrinsically worthless. If the money is honest and of unchanging value, they do not realise that they have given up anything. The paper or bank money is as good as goods to them and they appear to have just the same whether it is in money or goods. But that part of their possessions which is money has no existence in fact. The value it represents was obtained for nothing by those who issued the money, and, except in the case of coins made of the precious metals, it is not preserved. It is owing and not owned. Hence the term "virtual", meaning in effect, not in fact.

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the money which the banks have issued, has owners already. The virtual wealth is the amount owed to money owners and there exists nothing not already owned behind it. What is behind modern money is not the cover or securities held by the private firms who issue it. That merely secures *their* financial safety. It would be quite unnecessary in a national monetary system. There is nothing behind the national debt except the right of the government to levy the taxes, and money is debt owed and owned—both ways as between the individuals of the nation. What is behind it is the necessity of the people to give up wealth equal to it in value, and this wealth-given-up is termed virtual wealth.

The gigantic interests in the private issue of money have always pretended it is the public that insist on there being something behind paper and credit money. But during the War, the change from gold coins to paper was effected without the public being in the least disturbed. In fact it may be said that they welcomed the change. These interests are always trying to persuade the public of the unsoundness of any kind of money they have not the issue of. But to any impartial person forming a conclusion from the evidence, the present system must appear as fundamentally the worst and most unsound monetary system the world has ever known.

Even to those who know nothing about money, it must seem absurd not to be allowed to make the things we can make and do want because we cannot make gold or find it fast enough to keep pace with the growth of productive power. As it

is, as soon as the gold is dug out of the earth in one place it vanishes into the bank vaults in another. No one now ever even sees it. It would not be required for internal use at all under a national money system. It could be entirely reserved for correcting the balance of trade indebtedness as between one country and another.

Gold is in all respects about the worst commodity to choose as a money standard. Its value, relative to the commodities used up in living, varies enormously and capriciously by reason of the spasmodic nature of the discovery of gold-fields, the vast alterations which science is making, as in every other industry, in the technique of gold-winning,—such as cyaniding, dredging and the like,—which are as spasmodic as the discovery of gold-fields, and the totally inadequate quantity that exists for the purpose, needing the sort of dodges we have been examining to "economise" the use of it. Whereas, from a national point of view, economising in money leads merely to the economising in production and the artificial perpetuation of poverty. In times of prosperity when more money is required, gold, being an intrinsically valuable commodity, is hoarded and used in jewellery and in times of depression the hoards reappear and the jewellery is melted down just when less of it is needed for the currency.

The War opened our eyes to many strange things. It used to be thought that, for money to circulate, the confidence of the people was necessary. Confidence has merely relative application as between good and bad coins or notes. Now that money is

neither coins nor notes, for the most part, but an arithmetic sum, and all is equally legal tender, the peoples' confidence can unfortunately be dispensed with altogether. While the currencies of Germany, Austria and Russia were being hourly debased, during the War, by the issue of new money on a gigantic scale, always someone had to own all the money there was, whether they wanted to or not. The foolish ones were left with it, and the sharp ones instantly exchanged it for goods and borrowed what they required from the foolish, knowing that, when they came to repay it, principal and interest together would be worth less than the principal was when they borrowed it. All this is merely relative as between one individual and another. It has nothing to do with what gives the money its total value, that is the virtual wealth.

Peoples' needs are not for so many pounds, shillings and pence, but rather for such sums as will enable them to buy what they need. When there is more money and all prices rise, everyone, however much they may object, is practically forced to keep more ready money than before, if their lives are to go on as before. True, the virtual wealth might suffer some temporary reduction, and prices might rise without any increase of money, if sufficient numbers had reason to believe an inflation was impending. But it is hardly likely that it would be appreciable, having regard to the immense quantity of money, as worked out at the end of the chapter.

The conclusion from all this is that people have to be made more prosperous, or become more

numerous, to be able to afford to keep more money, and for it to be possible to increase the quantity without debasing the value. The *normal* condition for people to want more money, in preference to what money will buy, is that there should be goods enough to find a market at a constant price-level, as the demand for them is increased.

This view of money has obvious resemblances to, and differences from the so-called " Quantity Theory of Money ",* of which it may be considered a development. This states that " prices must, as a whole, vary proportionally with the quantity of money and with the velocity of circulation, and inversely with the quantity of goods." It is, of course, a definition rather than an explanation of price, which brings in a number of unnecessary and quite indeterminable factors. Expanded, it states that the average price multiplied by the quantity of goods purchased in a certain time, that is, the total money exchanged for goods, is equal to all the money multiplied by the number of times on the average in which it is exchanged for goods in that time. This is two indefinite ways of saying the same thing about two definite things, for the quantity of money and the average price-level, or its general goods value, are both of them more definite than " velocity of circulation " or " quantity of goods ".

When the enquiry is not how the wealth produced is distributed between one individual and another,

* Irving Fisher, *The Purchasing Power of Mon*[illegible] The Macmillan Co., New York, 1922.

or between one class and another, but the fundamental general question as to how production and distribution interlock, the simple exchanges of property *between one individual and another do not count.* The circulation of money proper and the sale of goods may be confined to the exchange for money of labour and services by payments of wages, salaries, dividends and the like for production (resulting in increase in wealth), and the exchange of the money so earned or distributed for the new wealth produced (resulting in its distribution). It should have been obvious that no mere algebraic relation between two ways of stating price, or the value of money, will explain it apart from the physical factors, such as the time required to produce wealth. This is a separate enquiry.

The only genuine result of the quantity theory was the somewhat vague conclusion that "if other things did not change" prices vary proportionately to the quantity of money. The "*quantity of goods*" in the quantity theory is really the virtual wealth, and, if *that* remains unchanged, prices are then proportional to the quantity of money. This, of course, is also two ways of saying the same thing if we mean by virtual wealth all the goods all the money would buy at the price prevailing, but not if we go behind the measure of virtual wealth and enquire why people *prefer to give up* this quantity of goods for money. The quantity of money can only be increased without depreciating its value by people wanting more money, meaning, in preference to more goods.

To issue money by fictitious loans to "stimulate production" is to increase immediately the consumption of goods, but the production only after the interval required to produce them. With the best will in the world, agriculturists and industrialists cannot immediately increase production when they are granted new money as bank "credit" for the purpose. There is a definite interval between initiation and achievement, which is in fact the key of the whole problem, and it has been hitherto completely ignored.

Consumption, during the time-lag, is increased without any increase of production of finished wealth. This results at once in a shortage of goods for sale, rise of prices,—so that the new quantity of money only buys as much as the smaller quantity did before,—and a drain of gold to pay for additional imports to make good the shortage. This is followed by reduction in the quantity of money again as the gold basis of "credit" is reduced, and a long and bitter struggle to bring prices down again and to get back to the level of production we started from. This, in brief, is why it is worse than useless to allow banks to utter money. The money is required after production is matured, not as a stimulant, and at that time the services of a bank are superfluous. The function of the banks is to lend money, not by pretending to lend it really to create it. If their operations were confined to lending money, all the rest would be simple enough.

Let us suppose the country is pursuing its peaceful avocations, every man busy with his own affairs,

nd nobody anxiously awaiting some change of financial policy, such as occurred in 1921, from a mad inflation to a madder deflation, or such as seems in the opposite direction to be foreshadowed in the near future by the financial medicine men to keep the patient alive. That is to say, we will suppose the virtual wealth of the country to be reasonably steady and consider how much the quantity of money must be abruptly varied to cause a perceptible increase in the index number that measures the average price of goods.

We take, for the purpose of illustration, the good round sum of £2,400,000,000 as representing the average total money in the country since the War. This is, conveniently, as many millions of pounds as there are tenths of a penny in the pound.* We can at once say that ten million pounds more or less will only affect average prices one penny in the pound, a change of less than one-half per cent., and probably quite imperceptible to the ordinary man. To cause a variation in the index number of 10% an issue or destruction of no less than £240,000,000 would be required.

It is not denied that there may be some slight periodic variation of the virtual wealth. But the present system of keeping money tight creates and exaggerates it to an absurd degree. Free money

* I wish to express my acknowledgments to Lt. Col. D. W. Maxwell for this excellent way of elucidating the question, and for other benefits derived from the perusal of a book by him in manuscript before publication, which he sent for my comments and criticism.

[I learn that the book is shortly to be published under the title: *The Principal Cause of Unemployment.*—F.S.]

from private manipulation and any real residual effect of this character could probably be easily neutralised by intelligent collection of taxes and their expenditure.

Once destroy the power of banks and private financial people to issue money, and confine their operations to legitimate transactions, and there would not be the least difficulty in maintaining the index number so constant that no one could detect its variation. It is not a question of knowing the correct amount of money to a million or even to ten million, for such sums are insignificant in their effects. But so long as private people can get money created for them and destroyed again when they have done with it, money must be capricious in its value and business a game of chance. The hard-working and efficient are thereby reduced to inferiority in comparison with the lucky gamblers, and those who do the real work of the world are at the mercy of wreckers and ghouls. Modern money, the vitally necessary internal national debt between the individual citizens in the community, to enable them to exchange their goods and services, is treated as an affair between some smart entrepreneur and a bank manager to be issued or withdrawn according to an agreement between them behind the closed doors of a private office.

Democracy, no doubt, had to make many mistakes before it learned the art of government. But surely this elementary howler in regard to the nature of a money system is, of itself, completely sufficient to account for its failure.

CHAPTER V

HOW A NATION CAN BE MADE WEALTHY

We will assume, though it is yet far from being the truth, that the nation does want to become rich, in the sense of increasing the general use and consumption of wealth, as well as its production, to the limits which the state of knowledge and the industriousness of the people allow. How is it to be done? The problem is easier to grasp if, in the first instance, we leave money out and consider the physical necessities.

The first and, to most people, surprising condition is real abstinence from consumption, and the expenditure of the wealth, that otherwise people would consume on their private wants, in building or tuning up the economic system to a higher duty. This is by no means the same sort of abstinence as is preached, not as a means to an end, but as a permanent virtue by the good people who have a foggy idea that if we do so long enough we shall one day all be able to live like camels on their humps, or, by the economists, upon one another's debts. No accumulation of wealth, but a permanent and abiding increase in its rate of production and consumption is the object. Consumption *must* be increased as soon as the new rate of production is achieved, or the last state of the nation will be

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The problem, though not quite the same as in Russia, which has necessitated the "Five Year Plan",—because in industrialised countries there is now a redundancy both of unemployed labour and capital,—is nevertheless similar. Before the future low of revenue for consumption can be permanently increased, there must be a permanent irrecoverable expenditure in the manufacture of "fluid" capital, which includes all the semi-manufactured goods in all the intermediate stages of growth or manufacture between the seed-time and harvest of agricultural and industrial production. The point seems trifling, but it is the key to the problem of how money ought to be issued.

To every individual manufacturer or agriculturalist, this *initial expenditure will not appear to be irrecoverable*, because he looks forward in due course, before retiring from the business, to completing and selling the fluid stocks as production matures, or to recovering them in the price, if he sells his business as a going concern. But from the community's standpoint the reduction of the economic system to its present poverty level is not in contemplation, and hence they are irrecoverable. We have had enough under private money of boom followed by slump, the laborious effort of tuning up production to a higher level, followed by the turning off of workers to fend for themselves, and cessation of further production until the excess stocks are finished and sold off.

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half a year's production at the initial rate. We may suppose the nation as one huge factory increasing its staffs by taking on additional employees on a certain day and, from that day, doubling production. Half of this is the normal former production which pays for itself by the selling of the product as it matures. The other half has to go on for half a year before the product becomes ready for sale, after which time it also can be made to pay for itself by the selling of what is produced. The extra expenditure has to be borne for half a year. Those engaged on it have to be paid and are, all this time, consuming finished wealth. Where is it to come from and who is to pay for it?

Paid for it assuredly will be, if not honestly, then dishonestly out of the virtual wealth, by a corresponding reduction in the goods value of the unit of money. If it is not honestly paid for, all hope of maintaining an honest invariable money standard may as well be abandoned at once. Whereas if the expenditure is properly accounted for, this will be the natural result, instead of being, as now considered, an ideal impossible to realise in practice.

The widespread ruin and deadlock resulting from variations in the money standard should of themselves be sufficient to condemn any system of economics as false which depends upon such variations for adjustments between supply and demand. The solution of the economic tangle of the day lies in avoiding the petty tricks which pay for part of the costs of industry out of the general value of money.

and in making it the first essential to the solution that the value of money shall not be debased for this end. Then we shall find that our economic system is so stubbornly inflexible that there is only one answer to our problem.

Those engaged in initiating the new scale of production must be paid for by others abstaining to the same extent from consumption over the period required for the new scale of production to mature. Then, and continuously afterwards, every one may consume on the average at the new and increased rate of production. But for this to be possible, the money in circulation must then be correspondingly increased. If this is not done the whole purpose of increasing production is frustrated. The new scale of production cannot possibly be distributed by the old quantity of money, if its value is to remain invariable. The quantity of new money required bears a similar proportion to the amount already in circulation as the increase of production to the former rate of production. This quantity, although a tidy sum, even in national accountancy, is insufficient to pay for the expenditure in initiating the new rate of production. It would be the same if money took on the average as long on the way from earning to spending as goods take in making. Whereas probably it does not take a fifth as long.

This may be elucidated by the simple diagram at the commencement of the book (p. viii). The economic process as a continuous cycle of production and consumption may be represented by a ring divided into two halves, the left-hand half referring

to consumption and the right-hand half to production. The clock-wise circular arrow represents the really important circulation of money, as distinct from incidental changes of ownership among individual consumers or producers, respectively. At the top of the ring the passage of money from the consumer's to the producer's side symbolises the buying of new products for consumption and use. At the bottom the passage from the producer's to the consumer's side symbolises the payment of wages, salaries, dividends and the like, for all the services, real or imaginary, in production,—that is for putting new wealth into the producer's side of the system.

The professional economist, but not often the layman, quite understands that, in the ultimate analysis such payments account for all production of wealth. Though any one farm or factory may have large expenses in buying materials, these costs arise as wage, and similar payments made in the other factories, fields or mines, from which the materials are derived. But what the professional economist does not seem to have yet appreciated is that wealth is now an artificial human product made by scientific methods with ever-increasing certainty and efficiency, and the older confused ideas derived from the age of scarcity are entirely upside down. Scientific men, having successfully solved the problem of wealth production may be credited with having contributed something to the understanding of the real nature of wealth, and to them, as indeed to anyone who thinks about it, the co-existence of poverty and involuntary unemployment is a suffi-

cient indication that, for a long time past, the orthodox economist has been somewhere vitally at fault.

The diagram of the economic system, simple and crude though it be, makes clear certain features which are often overlooked. Consumers have to be provided with money as much as producers for the system to work properly, the one providing the other in an endless circulation. Inability to distribute goods is as much a cause of poverty as inability to make them. Or, to put it the other way, poverty is due to inability to produce sufficient goods for national requirements, and this inability may be real technical inability or it may be purely artificial, due to the inability to distribute what has already been made. For many a long day now the poverty of this country has been overwhelmingly artificial. People who are always insisting on the necessity of cutting down wages, economising in consumption and increasing production, as an economic general principle rather than a temporary expedient, are trading on the ignorance of the public of this vital feature of the process. If they are not ignorant themselves, then they are merely the spokesmen of the creditor or rentier class, trying to reduce the price level and increase the real burden of the past indebtedness of the nation. Elsewhere they seem to see through these partizan policies more easily than in this country, where the public always seem ready to endure any hardship and to sanction any damage to its trade and industries in the interests of "sound finance" and "raising British credit to a higher level." This is at best only one side of the

difficult questions which arise if we allow the value of the monetary standard to vary.

Under a constant standard, the economic system, once got going, is stable or conservative, and self-regulating. For if consumers buy more than the usual amount they get short of money and less able to buy, while producers having more money than usual are the better able to make up their deficiency of goods. The sum total, goods + money, remains unchanged for each side of the system separately, and consumption balances production. In initiating the system, or what comes to the same thing, increasing its capacity to produce, more money has to pass from the consumption side to the production side than through the regular channel at the top of the ring, by a method which does *not* take out goods equal in value to the money entering. This is symbolised by the bye-pass marked investment, and the reason has already been explained. This money going in at the bye-pass and coming out at the bottom of the ring puts goods into the productive system without taking them out, with the consequence that the quantity of goods in the production system continually increases while this investment goes on.

After the time-lag, corresponding to the natural period required for production to mature, the rate of distribution of wealth at the top of the ring can be permanently increased without any further investment being required. We now come to the whole crux of the operation. If, *then*, consumers are not provided with the additional money to

purchase the additional flow of goods, the latter cannot be sold. It is a glut. Industry is overstocked with goods and perforce must reduce production. Not only the additional workers taken on must be turned off again, but also some of the original ones, until the extra stocks of goods, put into the system by the investment process, are distributed at the old rate. Lean years would succeed the fat ones, not because of any failure in production, but because of the failure in distribution, even under an invariable money standard, unless new money be issued to buy the increased harvest.

It is transparently absurd to expect to reap a harvest before sowing the seed, and it is as absurd to issue new money in order to increase production. It is easy to see what must occur if the attempt of the system to make good the error by rise of prices is prevented or "corrected". It corresponds, on our diagram, to the creation of more money in the producer's side of the system, which, being paid out as wages and almost at once exchanged for finished wealth, drains the stocks of the latter out of the system, putting in merely unfinished intermediate wealth at the first stage of manufacture. This deficiency of finished wealth is not temporary but permanent. The only way it can ever be made up is by the rise of prices to consumers before wages, etc., are correspondingly raised to workers for producing. If the attempt is made to purchase the deficiency of goods from abroad, it drains the gold out of the country to pay for the additional imports, and, if money is on the gold basis, the amount of

new money so issued has to be called in again This way of "assisting" industry, by the doubl theft of "cheap credit facilities", is thus like nothing so much as the way of a cat with a mouse. It is an attempt to reap before sowing, and as the law has always recognised for the individual counterfeiter is not mere theft of the amount forged, bu high treason against the economic life of the nation.

So we reach the *reductio ad absurdum* of the confusion between national and individual wealth. Wealth, to the nation, something for use and consumption in the maintenance of life, is to the individual wealthy person something to lend at interest and a permanent source of income to the owner of the debt. Money is individual wealth. It is therefore something to lend at interest, and it would be "wasteful" not to take advantage of this source of "wealth" in the issue of it. The lending of money at interest is the legitimate business of banks. Therefore the banks are the profession to whom naturally to entrust the issue of money, as they know how to make use of this source of "wealth" so that it is not "wasted". The result is that the community can only owe one another for the goods, which their money is the equivalent of, on the condition that, and as a mere after-consequence of, certain private individuals being willing to pay the banks their rate of interest upon the money debt the individuals of the community owe one another. Some private party, before any new money can be issued, has to pay to some bank interest on the

debt the individuals in general of the community owe amongst themselves.

In one respect, counterfeiting, if it could not be detected and if it could be kept within the right limits, would be preferable to this system. For as is only now becoming understood by people not professional financiers, the nation's money, is a mere bye-product, as it were, of money-lenders lending what they have not got to lend and always very jumpy in consequence about getting *repaid*. Money is not regarded as a national debt at all, but a purely private one. To satisfy those who pretend they have lent it, it must be periodically drained out of the productive system, and the community instead of a live industry is left with the dead corpse.

It is most satisfactory to the banker. He creates and destroys the nation's money as though it were his own. He can make the yard, the pound weight and the gallon all larger or smaller in consequence. He makes open mock of the law and a failure of the fine gift of science to humanity. It is not enough! There must be no one to challenge the new power. The King's Head has to be defaced from the national money and replaced by his absurd "Promise to Pay". Of all forms of government to which their ignorance has condemned the wretched peoples, surely democracy in its present plight is the silliest

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CHAPTER VI

OTHER PROPOSALS

IT IS CHARACTERISTIC of the age that it deems obvious and uncompromising truths uninteresting—obstacles to be circumvented and to be overcome, limitations to the aspirations for sovereignty of the mind over matter,—rather than the essential framework upon which that sovereignty depends. The great advances in the realm of positive knowledge of the last few centuries has still to be properly interwoven into educational curricula as its framework, and not merely treated as a clothes horse on which to hang literary, mathematical and philosophical embroidery. There is apparent in science a retrogression in this respect,—an alarming tendency to garb plain facts with a cobweb garment of elegant fancies and mysticism, to meet the public demand for this sort of dressing up. Knowing more than any preceding age as to the conditions under which we have dominion in the world, it is being made to appear that we "really" know nothing certainly at all! No greater cloud of mystification and fallacy exists than in regard to money. "Credit" is regarded by some of the public as a sort of magic talisman for escaping the necessity of sowing as

preparatory to reaping. This invades even "The New Economics".

All "New Economists" subscribe to the doctrine stated in this book in the form, in brief, that the age of economic scarcity is past, and has already been replaced by a potential age of plenty. It is associated in this country with the name of Major Douglas, whose post-War writings* opened the eyes of many to the undeniable truth that poverty to-day resulted from lack of distribution rather than from any physical inability to produce what was required. Before him, for many years, Arthur Kitson, in this country, and Silvio Gesell, in Switzerland and Germany, had more or less vainly attempted to interest the general public in the vital importance of currency questions, and the evils of the gold standard as an arbitrary and unnecessary limitation of the production of wealth.†

Unfortunately, the Douglas school, under the term "*Social Credit*", push the popular fallacies that exist with regard to that magic talisman beyond even the limits of human credulity.

As to the facts there can be no serious dispute. All "New Economists" are in agreement with the diagnosis of Major Douglas, to put it more or less in his own words, that the consumers are becoming increasingly less able to buy the whole potential production of industry, and that more money in

* *Economic Democracy* and *Credit Power and Democracy*, Major C. H. Douglas, Cecil Palmer, 1920.

† For a considerable literature that has sprung up round these questions see *This Age of Plenty*, C. M. Hattersley, Appendix K.

the pockets of consumers is the remedy. But on the reasons for this shortage of money, and the method of correcting it, the theories of the Douglas School seem to have no basis in fact or reality. They argue that this is the result of a flaw in the price system,* and that the shortage of "consumer-credit" is the result of the piling up of "overhead" charges for interest on, and for the initial provision of, capital. They recommend that part of the costs of manufacture should be met by the issue of "Social Credit" to the seller to enable goods to be sold below cost price.

Of course it must be understood that, if all hope of maintaining a stable money standard is abandoned, it is a possible solution to remedy the defects of the situation by a progressive and continuous inflation and debasement of the value of money. These reformers deny that this would be the necessary result of their proposals, and argue that it can be "prevented" by suitable orders or legal enactments. But this gesture will carry as much weight to those prepared to think the matter out as King Canute's celebrated gesture to his courtiers, when, to show them what fools they were, he sat on the sea-shore and commanded the rising tide to retire.

It is impossible to emphasise too strongly, as the neglect of this point seems to underlie most social and political controversy, that the production of wealth requires consumption equally whether those

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* *The Flaw in the Price System*, P. W. Martin, P. S. King, 1924.

producing are producing capital or consumable goods. In the diagram all fixed capital has to be put into the productive side by bye-passing money as explained, but this capital never comes out again. All the fluid capital in this side has to be put there in an identical way, and though what is put in is always coming out, a certain *quantity* of it never comes out and has to be treated as fixed capital.

To expose the fallacy in the first argument, let us suppose, for illustration, that one-half of the money issuing from the productive system goes to producing fixed capital, and the other half to producing "consumable" goods, that is, the only sort of goods which the public can use or consume. Of the money going to the consumers, one-half is reinvested and the other half buys the goods for sale. The half of the money suffices to buy the half of the product which is the only half buyable. There is no rise of prices, or flaw in the price system. Or, suppose that, owing to the continuous piling up of overhead charges, one-half of the money paid to consumers consists of wages and the other half of dividends. This alters the distribution of the product among individuals, certainly, but it does not alter the total amounts claimed. It may and probably does under present conditions lead to an over-production of capital goods in contradistinction to consumable goods. But the vague statement that the "absorption" of the money in meeting interest and other charges prevents consumers from buying the whole product is not true.

The true reason has been given already. If, by genuine investment, investors have enabled the preparatory stages in the production of consumable goods to be carried on till the product comes on the market for sale, the money in the pockets of the consumers being sufficient to buy only the original product is now insufficient to buy the increased product, unless prices fall. The orthodox experts seem to look upon such a fall as the natural "correction", whereas it entirely dislocates the whole community. Under modern democracies, whose finances are a mere money-lending proposition, there is no one whatever to issue money to consumers, when there is more to be consumed, and it is at this precise moment, under the cat-and-mouse system that it is withdrawn again.

The idea of defraying part of the cost of production by the issue of "Social Credit", or, not to be mystical, new money issues, is clearly chimerical. Under such a provision, the quantity of money would increase, not as the rate of production increases, but as the totality of goods bought and sold increases, that is to say continuously whether production increases or not. Once issued, and not destroyed or withdrawn again, money goes on functioning for ever.

The fallacy seems to have been in supposing that "Social Credit", like bank "credit", when the loan is repaid, could be cancelled when the sale had been effected. It would be of little comfort to the seller who had sold below cost and received a State credit for the difference (or to whoever in the

course of trade the credit had been passed on) to find that, having achieved its purpose, it had been cancelled. The greatest obstacle to the cause of currency reform is the prevalence still of errors such as this among the reformers themselves.

The views of one of the chief Schools on the Continent, that associated with the name of Silvio Gesell, who died in the year 1930, may be briefly referred to. They advocate a currency of continuously diminishing value, not by the simple method of progressive inflation, but by making it legally necessary periodically to affix stamps to the tokens, much as we have to do to insurance cards, to keep them current. They hardly seem to have got beyond thinking of money as tokens, and seem unaware of the existence of fictitious credit and its natural consequences. True, the cheque system has not abroad achieved the dominant position it has in this country, but everywhere it appears to be growing rapidly.

They argue that money has an unfair stranglehold upon industry, because it is imperishable, whereas goods for the most part deteriorate. So that the buyer has only to bide his time and the producer is forced to sell at the buyer's price, even at a loss. As a matter of fact, this could not occur under a national monetary system of invariable value. So long as there was sufficient money to buy the whole product at a constant price level, if one set of buyers abstained from buying and waited for a fall of prices, another set would buy instead.

This is the same as occurs during inflation when, as is well known, the buyer is completely unable to resist the rise of prices. Producers are in fact given the right to sell at a constant and invariable average price-level. General unsaleability, in contrast to relative unsaleability through the public preferring other goods, could not occur. People who want things abundant are asking impossibilities if at the same time they want them so cheap that it is not worth while for the producers to make them.

So far as any open criticism of our monetary system has been made by the official spokesmen of the poor and exploited in this country, it has been limited to the feature that it encourages all sorts of anti-social gambling and activities equally with legitimate enterprise. It has not got beyond schemes of classifying "credit", to grant it to genuine home-producers at nominal interest, and then to others at interest rates rising with the anti-social character of the purpose. This seems like trying to make a mechanism discriminate morally, and is as feasible as to try and invent a train that would only go if its passenger and driver were of blameless character, or a weapon that would destroy only the originators and not the victims of war.

A money system should be a straightforward mechanism, like an honest weighing machine, for keeping accounts correctly and for the swift and unimpeded distribution of all the community can produce, not one that will favour any one class at the expense of another. The restrictions of fictitious

credit to deserving objects is, at best, doing evil in the hope that good may come, and only ill would be the result. Money is a binding social contract and is no more to be insidiously repudiated than any other business contract.

The plain man will sympathise neither with the industrialist who, to finance his production, damages everyone except his own class by making their incomes worth less in goods, nor with the rentier class who wish to make their fixed monetary incomes worth more. The simple justice is that neither should be permitted, and that the State itself should issue genuine money at a rate which will keep the average price of goods or the price index, constant from one century to the next.

So called "practical" people take the view that, unanswerable as may be the case against private money, the vested interests of the banks in its issue and destruction on a colossal scale are so strong, and the powers they now wield in the community so unchallengeable, that it is mere waste of time advocating any reform which could interfere in any way with these interests. The view taken in this book is that compromise on this question is *not* practical, any more than it would be on the matter of tampering with the standards of weights and measures. If some people were allowed to concertina these standards to suit themselves all the others might as well go out of business altogether. So, if some people are to be allowed to issue and destroy money, all the others may as well give up at once any idea of economic independence or freedom, and hire them-

selves out to those who have this power at the best terms they can. There cannot be two Heads in one State and the people have to choose between Parliament and the Banks.

CHAPTER VII

INTERNATIONAL ECONOMICS

Most impartial people can be got to agree that a national monetary system on the lines indicated might be an improvement upon the existing one, but express the doubt whether one country could adopt it without the others, and argue in fact that monetary reform must be international rather than national. If we examine this argument it will be very difficult to find any justification for it. Every country has its own system now; they are all different, and, if there is to be reform, one country must lead the way, and would stand to profit by its initiative. After fifteen years' residence in Scotland, the author left the country with the view that the admitted good qualities of the Scot, generally ascribed to their character and moral virtues, were at least as much the result of the fact that a century ago they were in advance of the rest of the world in their banking system, and had devised a system of issuing money by the banks in accordance with their needs. Now they have come under the centralised international money power their former advantage has become a present handicap, so that, in truth, now on crossing the Border there is not much evidence of it, nor of any peculiar economic freedom or indepen-

dence in Scotland, but increasingly just the reverse. They furnish an object lesson of the thesis justifying this subject and this book, that the economic basis is the foundation of all national greatness.

It is true that this country is dependent upon its foreign trade for the greater part of its food supply, and any monetary system that interfered with this supply would be condemned, however much it might facilitate internal trade. But precisely in what way an honest monetary system is going to injure foreign trade is left to the imagination. It is an objection used to frighten the timid. For what other countries are concerned with about a nation's money is not how it is issued, but what it is worth in goods. A money invariable in terms of goods in general is exactly the kind that will facilitate foreign trade equally with that at home.

What is proposed is the modern method, which the growth of statistical economics and the use of index figures renders possible, of doing what the old gold standard tried to do without success. The goods value of gold over the past century has been a widely variable one, as Irving Fisher has been at pains to expose, and these changes have had most distressing social consequences.

The real argument here against reform is precisely the same as against any reform, that it will in time destroy the basis of the old civilisations founded essentially on poverty as the lot of the majority. Extraordinarily difficult and confused as are international economic problems in te---- of the

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mental outlook derived from the past age of scarcity, they are, as a matter of fact, starkly and uncompromisingly clear in terms of the New Economics. For the same general point of view that illuminates and clarifies our domestic economic situation, is applicable with even greater directness and definiteness to international affairs.

If it were merely a question of this country obtaining all the goods it requires from abroad in exchange for equivalent goods exported, there would be no difficulty whatever. The monetary system that allowed our industries to function at full power at constant price-level would stimulate equally the barter of those goods for foreign products. To correct any small balance of international trade, gold could be used,—indeed that would be its only remaining use as money,—and simple measures could, if necessary, be taken to keep the gold reserve of any country within definite limits.

The difficulty is entirely different and a much more sinister one. It is not this sort of export trade or barter that the political world is getting anxious about, and in order to bolster up, is proposing to jettison the principles of free trade and to adopt tariff barriers against the foreigner with preferences within the Empire. It is the sort in which our goods surplus can be sold abroad *without* goods coming back to pay for them, to create interest bearing debts for the future maintenance of the wealthy classes at home.

So far as the ordinary citizen is concerned, most of what passes for foreign trade the nation would be

far better without. As is well known, the money created so easily in this country by banks is to a great extent immediately transferred to other countries, producing dislocation of the foreign exchanges, for transactions which have nothing to do with goods or *bona fide* trade at all—it may be to take advantage of some panic or upheaval on a foreign stock exchange. Put a stop to any speculator, who wants money, having it issued to him straight out of the pockets of the real owners, to gamble on margins with, reduce foreign transactions to genuine barter and *bona fide* dealings in investments, and the problem of the foreign exchanges, and of international trade relations in general, would be much simplified. This is precisely what a national monetary system would naturally do.

If what may be termed the "starting mentality" leads to congestion and deadlock in national economics, in international economics it is a permanent danger to the peace of the world. In home affairs, the next step, after getting the economic system to full work again, is to deal with the growing load of capital indebtedness, and to secure for the nation, out of revenue derived from taxation, the capital so as to make way, as it becomes obsolescent, for its continuous replacement by new. Applying this to international economics we must look forward in the future, not to a continuation of "a favourable balance of trade" and to continuing to export capital, but to the repayment of the enormous total debts contracted by the newer countries to this and other industrialised nations.

Sir Robert Kindersley in a recent address to the National Savings Movement at Cambridge* gave some interesting statistics, at which he had arrived with regard to this country. We receive £300,000,000 a year in interest and sinking fund from foreign investments. Prior to the War, imports (goods and services) paid or nearly paid for exports, and the whole, or by far the greater part, of the interest and sinking fund received in respect of past indebtedness went back for reinvestment abroad. He deplored that now only one-half is going back. The result according to this authority, must be disastrous to our export trade "which in the past has been built up and sustained by liberal investments in those countries which are willing to take what we produce".

Thus this "export trade" is a very curious one, as we not only export the goods, but we pay for them also. The foreigner can only buy our goods if our investors hand over their savings to him to buy them with. The capital indebtedness of the rest of the world to us,—the unknown total that brings in £300,000,000 a year as interest and sinking fund, which before the War had been growing at compound interest, the whole of the proceeds being returned for reinvestment,—is still growing, but, as only half is reinvested, our "export trade" is already in danger. What it will be when the tide turns, and the newer countries themselves become industrialised and wealthy, and desire to repay, no one ever contemplates.

A careful study of these facts will reveal to the

* Reported in *The Times*, Sept. 20, 1930.

thinking reader more about the true character of modern wars than anything likely to be learnt from the apparently rather ineffective people trying ostensibly to stop them. They start from a totally false assumption—that modern wars are due to human pugnacity and quarrelsomeness, that suddenly a nation is seized with an uncontrollable passion that leads to it attacking and attempting to exterminate its neighbours. Whereas everyone knows, or should know, that it is only with the greatest difficulty and by sedulous dissemination of untrue and misleading propoganda, that nations can be worked up to the pitch of declaring war upon one another. When war is once started, it may be relied upon to feed the flames of hatred and revenge. But, even so, it was remarkable during the last war what a lot of clever people, expert in national psychology, had to be mobilised to invent and disseminate false stories in order to keep the spirit of the belligerent nations up to fighting pitch.

What applies for one industrialised nation like ourselves, applies equally for others. Presumably Germany, France and the United States are also all out for a "favourable balance of trade". The apparently flourishing export trade of industrialised nations during last century has been built up because the goods are not paid for, but owed for, just as the wonderful economic prosperity experienced by this country during the War was due to precisely the same reason. It is the wealthy man's one idea of what wealth is for, to lend to those who are in need, at interest, surviving from the age of scarcity.

Even the slackening of this export trade immobilises r factories and workshops, and the turning of the le,—which is the natural development to be antici- ited as the rest of the world becomes industrialised, id adopts scientific methods,—would "deluge us th a flood of foreign goods". So that we may ok forward under the system to being able to nploy less and less of our own workers. Indeed e are already a long way on this road to national icide.* Whether the foreign debts are repaid or ntinue to increase, we are heading for a position which a rentier class at home live mainly on the terest or repayment of foreign investments, and larger and larger part of the population can only ve as their personal dependents and servants, and ss and less by genuinely productive industry.

If a debtor refuses to pay his debts, the creditor an invoke the superior power of the law to make iings even more expensive for him. But, if a debtor ation refuses to pay its debts to a creditor nation, iere is no law about it. It is in the end a question f force of arms. If the creditor nation, by tariffs nd the like hinders repayment and is unable to ompel the continued recognition and growth of ie debt by force of arms, sooner or later on a wourable opportunity, the debt will be repudiated. o the policy of the industrialised nations calls for n ever increasing scale of armaments at once to revent debtor nations from either repudiating or ttempting to repay in goods their past debts!

* Compare *An Intelligent Woman's Guide to Socialism and apitalism*, Bernard Shaw, Constable & Co., Ltd., 1928.

Now as an initiatory step to develop virgin territories, and to provide them with the capital required to produce the commodities we need, in exchange ultimately for their products, the policy may have once been admirable and beneficent to all parties concerned. But for nations to expect to be able to live upon one another by this exchange is merely to try to put the engine where the starter ought to be. The countries which we and other industrialised nations have helped to develop are growing up. They are consuming more and more of their own produce and manufacturing more and more of their own capital. Even before the War it was obvious that something fundamentally was wrong with the system that apparently forced the older countries to neglect their domestic economy to a dangerous degree, in order to export abroad vast amounts of wealth on loan. That war is the only logical end to the continuance of this system must now be obvious even to the most short-sighted.

But those in charge of our national destiny are not short-sighted. They are blind, as Nelson was, in one eye, capable of seeing only what they wish to see. Their eminence in affairs is due solely to their single-eyed devotion to the ruling passion, the problem of how, in these fecund days of science, fast enough to convert the wealth that perishes into debts that endure and bring in interest. Two-eyed people may well tremble for the future of civilisation at their hands.

Thus, in international relations, the fundamental antagonism between the demands of a scientific

civilisation and the age of plenty it would inaugurate, on the one hand; and the older mentality and systems of life arising out of the principle of scarcity, on the other, is more uncompromising and clearer even than it is in domestic affairs. It may be put in a nutshell. As in an age of plenty there need be no debtors, so there need be no creditors. The world, if it chooses, can pay its way as it goes. As wealth is made more and more plentifully, the source of livelihood of the wealthy from lending and hiring it must tend to dry up. The millennium offered by science is not one in which overwork, under-feeding and overcrowding will have come to an end, because of the dizzy virtues of compound interest, by a sufficient accumulation of debt, but rather one in which all are economically free so that none are compelled either to borrow or be hired out to labour for another's gain.

The existing plutocracy, or aristocracy of creditors, can only be a transitional stage between the old and the new. It is far less securely established than the old landed aristocracy, which it so ruthlessly displaced. For the world cannot permanently be kept in poverty by financial restriction of production in peace time, and allowed only fully to produce for destruction in war. The party economics, whether of Capital or Labour, will have to give way to a national and international economics that does not end by defeating its own purpose. Alternatively, it would seem, the white race must destroy itself by internecine struggles on an ever increasing scale of destructiveness and hand on the civilisation they have

inaugurated to whoever may then be left alive. It would seem unlikely, now that the principles and practice of science are so widely disseminated, that the world could ever wholly revert to an unscientific economy.

PRACTICAL MEASURES

IF THE principles expounded in the preceding chapters were properly understood, the actual application of them to meet the existing conditions of the world should not prove a difficult task to competent legislators and administrators. For this the writer has, of course, no brief, but it seems advisable to give a short account of the sort of measures that appear to him advisable, more in illustration of the principles than as the best or only ones that would serve. It is inevitable that the British nation, with its love of compromise and inability to learn except by actual adversity and costly experience, is destined to try many devious roads before being forced to take the direct one. Whereas, to anyone with any training in physical realities, the direct one is the only one worth taking.

In the first place we have to make a total end of the system of fictitious credit. Let us be clear of the difference between the false and the real. A real credit is put through by someone selling something of value. This does not affect the quantity of money, for the seller obtains money, which the buyer gives up. When the former expends the proceeds on the goods necessary, and in paying the

wages and salaries of those engaged in production, he is doing what, by his own action in obtaining their money, he has prevented the original owners of the money from doing instead of him. He gets what he wants, and other people receive his property in exchange.

Now consider the existing system in periods of inflation, as occurred during and after the War, and in periods of deflation, as the present. In the first place new "credits" are being granted faster than those granted are being repaid. Any one with any acceptable security, easy to sell and not likely suddenly to depreciate,—and for this purpose a gilt-edged investment, such as some National Debt security is preferred,—by depositing it at a bank and paying the current rate of interest, is accommodated with a "loan" or "advance" for some sum short of the nominal value of the security. Nobody willingly gives up anything at all, but the person accommodated is empowered by the bank to obtain other peoples' property up to the extent of the loan and the money they receive in exchange is an addition to the quantity of money in existence.

Let us suppose that the security is some form of the National Debt. Interest is still paid by the nation to the owner of the security, and is passed on by him to the bank with whom it is deposited in whole or in part to meet the charge of the bank for interest upon the "loan". Hence a highly curious and instructive situation arises.

The new money issued by the bank would have had exactly the same effect on prices, whoever had

issued it. The State, when it borrowed in the first instance from the owner of the security, was acting in justice to the owners of money in general, so that its debt to them should not be repudiated in part, as it would have been if the State, instead of borrowing it, had itself issued the money. This is precisely what the banks have now done, and we reach the amazing conclusion that the State is now paying interest on the loan to the banks for doing the very injury to the owners of money for which interest is being still paid to prevent being done. The reason why the subject of money and high finance is such an unintelligible one is because it consists of transactions such as this on a gigantic scale, for which outside of a lunatic asylum it would be difficult in the twentieth century to find any analogy or parallel.

When the increase of the currency by such means has gone too far so that prices rise sufficiently, all economic relations are upset. There is strife between employer and employed and a general demand for higher wages and salaries owing to the high cost of living. There is an accumulation of new goods coming on the market, and increasing competition for sale, because, owing to the rise of prices the money can distribute no more goods than at first. Money has now the whip hand and can dictate its terms. Regardless of the consequences, deflation now takes the place of inflation. Existing credits are cancelled faster than new ones are issued, so that the total amount of money is reduced.

This attempt to reduce prices and wages is at first stubbornly and actively resisted. The production of wealth is slowed down, and less sells at the enhanced prices, rather than the same amount at lower prices. Poverty is now produced by glut not by scarcity. More and more of the personnel of industry are turned off, until economic distress and insecurity of livelihood compels the recalcitrant workers to accept lower wages. The nett result is to leave the nation impoverished and its internal relationships exacerbated, by virtue of the great business losses incurred, which are on a par with those that would occur if weights and measures could be fraudulently manipulated, and of the strife between employers and employed.

Modern money is a form of internal debt enforceable against the individuals of the community, and not at all against the persons who issue it.

The Government responsible to a Democracy has no more right to allow private people or firms to appropriate the proceeds of the issue of money than the proceeds of a State loan.* By doing so they have betrayed their trust. The loss of the unclaimed wealth to the nation is the least and most insignificant of the evils that follow from allowing a private money system. Before the day when money rose to its present power, in the early days of democratic Parliaments, such a situation as at present

* It would appear from Section 6, subsection (1) of the 1928 Act this principle has been recognised so far at least as concerns the retired Treasury Notes, but the language is capable of a number of meanings. The point stressed here is that it *should* apply as a matter of course to all money.

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xists would have had the support and defence of o party. It would have been the target of righteous corn and ridicule of every individual representative f the people.

The mistake in those days was, indeed, the same s now. Parliament has always been afraid to issue noney sufficient for the nation's needs, as gold and ilver and the older methods of distributing the evehue became insufficient for modern production. t was afraid of being deemed immoral and fraudu- ent by the ignorant, if it got "the something for othing" which it is impossible not to get by the ssue of modern money, and if it dared to pay its way in part by this method, rather than by the "honest" method of imposing taxation. But, in hose days, it was equally particular that no private bank or firm should do what it considered would be regarded by the public as immoral and fraudulent. Then the cheque system was invented, which relieved the impossible situation by allowing banks, without the public knowing it, to issue the money the Parliament dare not itself do openly. Now the interests in this practice are so gigantic that they can suppress, to a large extent, any public discussion of the subject that is unfavourable to them.

The replacement by national money of the two thousand or more million pounds sterling issued by the banks, is an act of tardy justice to the com- munity, and, if this generation has not the courage to put it through, we may rest assured a more en- lightened future generation will. Prudence suggests

the sooner the better, for the longer it is delayed the less there is likely to be to show for the money It needs a Chancellor of the Exchequer, failing a special Minister, who will exercise his normal function as the trustee of the nation's finances.

At the present time over £100,000,000 a year is extracted from the taxpayer as interest on the National Debt, and is being paid *via* the owner of the security to the banks to which it has been handed over as cover, as payment to the banks for doing what the interest is the consideration for not doing The State borrowed the capital sum and pays interest upon it, in the interests of common justice to other holders of money, so that their money shall not be depreciated in value, as it would have been if the State, instead of borrowing, had simply issued the money by the printing press. But the capital sum, though not printed, has been issued by the banks as bank "credit" with consequences exactly the same as if the State itself had issued the money So that the taxpayers are paying annually over £100,000,000 a year for no consideration whatever and this absurdity should first be cleaned up.

The situation is that some £2,000,000,000 more money than exists is at present owned by people with current accounts. Suppose, in the first place this money is issued by the Nation as a loan to the banks for a short transition period, and they are legally compelled henceforth to keep £ for £ of national money against their liabilities to current account holders. The newly issued money is thus immobilised in the banks who for the first time i

their history are solvent against even the most sudden and violent financial panic. Naturally the banks will not now continue to keep current accounts for nothing, and they are in a position to repay anyone who does not wish to pay their terms for the service.

The situation then is that the banks owe the nation £2,000,000,000 and are owed this sum by industry and other debtors at call or for short periods. As these "loans" mature, they are not renewed but repaid to the National Exchequer, and immediately put back into circulation by the buying of equivalent national securities for cancellation. Henceforth all bank loans must be genuine, if the £ for £ provision is made effective.

As regards industry, short term loans are as disastrous to the community as pulling up a tree by its roots every now and again, to see they are all right, would be to the tree. There is no justification for them if money is of unchanging value and the national needs are to be catered for smoothly and uninterruptedly. Industry can be neither created nor expanded without irrecoverable expenditure in the sense already explained, which must be provided for by genuine credit or out of taxation. Every business, except banking, has to have sufficient real capital and it is not provided by creating debts in ledgers.

As for the banks, their legitimate business is to lend not create money. Painful to them as the author's criticism must necessarily be, it is possible they may in some future age put up a tablet to his memory ver them from their Sisyphean

task. For their legitimate business, as indeed all legitimate business, cannot help being very greatly expanded if the strangle-hold of money over men were removed. This, on the other hand, will probably antagonise the Labour Party to the whole proposal, for the thought of anyone making extra profit is painful to them. As, however, science literally threatens to destroy the world if it insists on remaining poor, their objections must be waived. For conscientious objectors to an age of plenty the monasteries would still be open.

With regard to the whole question of lending for investment, there is room for reforms much overdue. Whatever may have been once the case, genuine industry should now not have any difficulty in securing all the capital it may require. Vast sums in fact are now wasted for lack of proper guidance and protection in this respect. According to Mr. Henry Morgan, President of the Society of Incorporated Accountants and Auditors, in the last six months of 1928 the public invested £15,117,000 in 58 new companies. The estimated profits of 52 of them were given as £5,219,000 a year. Now, two years after, he estimates that the public had lost 95% of their money. Only one of the 58 companies had so far paid any dividend, 27 were already in liquidation (14 of them under compulsory orders), and, of the remainder, at least 16 were in serious difficulties.*

Surely it is time something was done, and this direction of the flow of investment should be legitimate

* See Report in *The Times*, 26/9/30.

banker's work in which they might very much extend their usefulness. If they are unable to, the needs of industry can easily be met by the Government securing the rights and interests of investors who wish to invest their savings under their protection.' One would have thought this to be one of the natural functions of the law in any case!

As for the future provision of such additions to the total national money as will keep the index number constant, as production and population expand, it would seem that what is required is a Bureau of Statisticians analogous to the National Physical Laboratory, which standardises our weights and measures, to determine index numbers and advise Parliament as to the rate the new issues should be made. These issues would be made either as the original issue, by retiring State loans, or put into circulation in payment of part of the national expenditure that would otherwise be defrayed by taxation. Some people seem to have an exaggerated idea of the importance of giving the money direct to consumers, as would be the effect of the latter alternative. The point of first importance is that all should benefit, as all, in greater or less degree, unwittingly contribute to the new issue, but there may be secondary considerations dictating which method may be adopted. The question is the same as would arise under the second part of the scheme still to be dealt with, whether to use the national revenue for the current expenditure or to redeem past capital indebtedness.

It is always quite gratuitously assumed, by the defenders of our devious methods of creating money, that Parliament is as a matter of course not to be trusted, and that the temptation to meet expenditure by issuing new money instead of by taxation, in peace-time as well as in war-time, would be irresistible. Even if this were true, it should not be difficult to guard against it. The Bureau of Statisticians, instead of being merely advisory, might be given a status similar to that of the judicature in the administration of Parliamentary enactments, so that their decisions were as binding upon Parliament as any other legal decisions are, unless set aside by special legislation. But, if it were laid down that all the profits of the issue of money should go automatically to national debt redemption, in the same way as any surplus of the revenue over expenditure now does, *not only would a step be taken which would* protect this source of revenue from the rapacity of future Chancellors of the Exchequer, but a welcome and very necessary new provision for the cancellation of this debt would be made.

This seems to be the first step the nation will have to take along the road, the goal of which is economic freedom. It may be only a small one, but it is the first step that counts. It would ensure that the regular production and consumption of wealth should increase up to the natural limits set by the availability of capital and labour, and the industriousness of the people. There would be no involuntary unemployment, and apart from physical or mental defectives for whom medical or educational provision

rather than indiscriminate charity is needed, there should be no undeserved destitution.

The important distinction between the system proposed and the present one is that, while the law of supply and demand would operate as before as between one kind of commodity or service and another, there never could be general overproduction and unsaleability for lack of money. That would be met by greater purchasing power among consumers, so that the standard of life would gradually rise. On the other hand, there is nothing whatever in these proposals to encourage waste, idleness or exorbitant demands on the part of one set of the community, relatively to the others. For if everyone became demoralised by prosperity and too lazy to produce wealth, so that prices tended to rise, the correction would be applied by taxation withdrawing money from circulation to prevent the increase in prices.

It is, of course impossible to predict for the indefinite future, but, for the present, we are still very far from any real sateity of production. There is so much leeway to make up in under-consumption that problems that would arise if ever real over-production occurred may be left safely to the future. The problem to-day is under-consumption and the solution in general terms must precede the solution in detail. We must set up a monetary system capable of distributing all the wealth that can be produced before indulging in partizan disputes as to the relative shares of individuals or classes in the product. The future safety of civilisation depends upon finding an outlet for the world's potential production by

useful consumption, which shall build up and enrich life in all its varied aspects, rather than destroy it miserably by a succession of ever more disastrous economic wars. A national scientific money system would create an enormous home market for the goods we can so plentifully produce, as well as facilitate the barter of these goods for others more favourably produced in other countries.

Hitherto the whole thoughts and energies of the world have gone to the initiation of a new system. Acceleration and the speeding up of production, labour-saving, the reduction of working costs, and the reduction of consumption to the minimum in the interests of accumulation, are the views still left as a legacy from that byegone era. No thought has ever been given to the ultimate purpose of all the wealth we have been patiently preparing for over a century to be in a position to produce. Now we can make it no one seems to know what to do with it. Except as a purely transitory phase, the idea of producing more and consuming less is a contradiction in terms. If something is not speedily done to increase consumption, the world will speed up till it bursts. Already it might be satirised as more remarkable for its revolutions per minute than for its miles per hour.

Once the whole unemployed labour and capital are again absorbed in industry and the production of wealth increased to the maximum possible, *then* is the time to take the next step, which to those who understand the principles involved will need little further elaboration. From the standpoint of national

economics capital expenditure, necessary and productive as it is, is expenditure, not accumulation, and, in so far as it is not redeemed or wiped off, remains as national debt,—just like any other national debt, a source of income to some members of the community at the expense of the whole. Its ownership by individuals results in a redistribution of the revenue as payment for its hire or use. But from the national standpoint its provision in the first instance is an irrecoverable expenditure precedent to any of the modern methods of production. Unless redeemed, the debt will accumulate indefinitely and this civilisation, it would seem, is bound to go the way of other past civilisations that became wealthy, through the *growing power* of the creditor class over the debtor class, and the reduction of the latter to the rank of their personal followers and servants. Whereas economic freedom lies along the opposite road.

A national monetary system would benefit the poor equally with the rich, and would remove the immediate cause of the worst symptoms of class warfare in the body politic. There would result a larger flow of money not only for individual livelihood, but also a much larger total revenue to be levied upon by the tax-gatherer, so that the income from this source could be increased even though the rate of taxation were reduced. There would be more money available for investment, and that is all to the good, as it could not but help to lower the rate of interest. This will increasingly tend to prevent an over-production of capital, for people

who might be tempted to "save", when the rate is 5%, would prefer to spend if the rate were reduced. At the same time, even though there were no interest inducement, responsible people in an individualistic society would be compelled to try and save, as has already been pointed out.

The next step is the redemption of old capital by the allocation of a proportion of the revenue derived from taxation. This is a perfectly sound and practical scheme for the gradual nationalisation of capital, for achieving gradually the original intention and object of Socialism, as the national ownership of the means of production, distribution and exchange. It is as different from anything that passes for the name politically to-day as vinegar is from milk. It has a catch in it. It is effected not by oratory or by violence but by paying for it, and if ever it is put into operation it would probably not be by political socialists at all but by the older parties.

Modern expropriatory taxation, so-called socialistic but actually purely individualistic, merely alters the identity of the owner of capital from A to B, C, D, . . . It exchanges one aristocratic devil for seven plebeian ones. It does nothing whatever to vest the capital in the nation as a whole. In future the nation should "save" as well as individuals. Taxation should be for two definite purposes, the provision for government expenditure, which at present is the only one, and the second for the purchase of capital investments. The first under economic prosperity should be a diminishing and not an increasing burden, as all the ameliorative payments to paupers.

the unemployed and for the innumerable services which an economically free and prosperous people would naturally prefer to pay for themselves, becomes more and more unnecessary. If, as elsewhere worked out,* a 4/- in the £ income tax derived from investments were earmarked for the purchase of those investments, and the subsequent interest payments of the investments so acquired by the nation were devoted to the same purpose, the whole of the now-existing capital would pass into the ownership of the nation in about twice the time required for the investment to return the capital in interest, that is to say, in 40 years for a 5% investment, in 50 years for a 4% investment and so on. Of the capital accumulated in the interval from the initiation of the scheme, the nation would also own a proportion increasing with the age of the capital. The scheme may be called one of compound redemption, the interest on the capital acquired being used as well as the revenue from taxation to effect the redemption.

Expropriation *en bloc*, as advocated by the communists, would certainly be speedier, but it would result merely in the government being the capitalist and the communist the governed. *Plus ça change, plus c'est la même chose.* The differences between one political system and another are far less fundamental than is commonly supposed. The system which is usually called capitalism is in reality the scientific civilisation. Capital is the essential, and it is merely in the ownership of it, and the way in which it is provided, that capitalism differs from socialism. If,

* *Wealth, Virtual Wealth and Debt*, p. 272.

under the latter, the provision were neglected in any of the highly populated industrialised nations the majority would starve. The point seems to be neglected by the revolutionaries that those who produce capital are consuming but not actually producing. They are merely preparing for future production. The actual processes involved are identical whether capital or consumable wealth is being produced, but in the first case the product is not consumable. Hence those who produce consumable wealth must always produce more than they consume, by the amount consumed by those producing capital. Then, but not otherwise, all can consume more than they could without such capital provision, and the population can grow beyond the limit of the former mode of life. The principle of Malthus is offset.

The reforms here stressed, if applied, would result in a system with the good features of both the individualistic and socialist states. All the old capital would automatically be acquired by the nation, by applying the taxation on the revenue it provides to its owners to its redemption, and the whole revenue therefrom would ultimately be vested in the nation. Whereas the starting and development of new industries and sources of income would be left to private initiative and enterprise, and in this it is hardly to be questioned that individuals are better than any government department could be. In fact it is to be doubted whether it could be done at all satisfactorily by governments as at present elected.

If ever science is developed to the point that there is less and less for the human worker to do, if more and more of the routine of production continues to be accomplished by automatic labour-saving devices, so that only a fraction of the human labour and services available are required for full production,—which is a state of things by no means so remote as at present it seems,—the situation will be adequately met. For the nation will then be in possession of a source of revenue of its own, which is not the case now, out of which national dividends in lieu of wages could be paid, as the Douglas school advocate, to all, or to all who are no longer required to carry on the economic work of the world. It will probably come as a surprise to many people who have not gone deeply into the question, that this supposedly wealthy nation, and others are the same, owing to the false system of private economics posing as national or political economy, owns practically nothing at all. It is in the position of a poor relation to its citizens, and is dependent upon what they may graciously be pleased to grant from year to year to enable the national services to be carried on. A rich nation to the old economics is a poor nation to the new.

CHAPTER IX

DEMOCRACY

THERE is a growing body of opinion that Democracy, in this country at any rate, has not been given a square deal. Its political power has been useless without real economic power. The view taken in this book is that its fatal mistake was first in allowing a private monetary system to grow up and then in not putting an end to it. It is finding itself under vague international compulsions to pursue policies which inflict irreparable damage to its internal economy, continuously to restrict production and employment, to get deeper and deeper into debt, and unable to use its strength or skill for its own life. After over a century's unparalleled advance in the arts of producing wealth, living is becoming for an ever-increasing proportion more difficult and insecure. Everyone knows that there is something fundamentally wrong, and that the solution of the problem is not yet within the horizon of party politics.

The alarming increase of unemployment and the continued deep depression of our staple industries is the continuous theme of all parties, but on the money policy as the obvious, and indeed the definitely predicted cause, there is a conspiracy of silence.

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affect directly no man's pocket. It does not ye apply to money. That is the Ark of the Covenant the Holy of Holies of the Slave Civilisation. Those i authority know well the danger. It might hav consequences to humanity graver and more fundamental than freedom of belief. It might lead t economic freedom, the tap-root of all freedom worth the name.

Look at it both ways. Who are the supermen t govern such a kingdom, without the fear of hunge to get its work done, the compelling power of miser to bring men and women to its most disgusting an and degrading offices? Though all may wish t be rich, neither the rich nor the powerful wish al to be rich. There is that domestic servant difficult and the necessity of obtaining recruits for the arm which, in 1921, made deflation appear to be th lesser evil. So Democracy is betrayed.

But each of us contributes his pet King Charles' Head. As, at the creation, the world was made wit only a limited quantity of gold, it is clear, that how ever rich we might be in goods, money must alway be scarce and difficult to come by. Not to have a least a backing of gold would threaten the whol precarious structure built upon " credit ". What i the use of giving the masses larger money income than is necessary for them to exist upon and rea the next generation of labourers? They would onl squander it to their own and other people's hur and become too lazy and independent to work Then there is the population question. Already th world is being increasingly recruited from th

Parliament endorses and encourages the banker in his belief that the nation's money is his sole concern to create or destroy as he decides. It deferred, or appeared to defer, to public opinion to the extent of appointing another Commission, since the notorious Cunliffe Currency Committee that advised deflation, to enquire into the financial system. The finding of this, if ever published, no ordinarily intelligent person probably would even take the trouble to read, any more than they would of a Temperance Commission composed of brewers. It consisted of bankers and such experts and economists as hold views about money acceptable to the bankers who have taught them.

The public knows perfectly well that hardly any step in knowledge or advance in thought, however commonplace to-day, has ever been made without those deeming themselves authorities in the matter being hostile and opposed to it when first made. To regard money as made for man rather than man as made for money would, to the money expert to-day, be as great a heresy as it was at one time to believe and teach that the earth went round the sun and not the sun round the earth. But if Galileo and Copernicus had lived to-day, and had upset the theories of the authorities regarding the nature of money rather than of the universe, they would have had far more difficulty in getting their new views impartially discussed than they had from the Medieval Schoolmen and the Courts of the Inquisition.

Freedom of thought and discussion applies, as yet, only to the affairs of the mind and conscience which

affect directly no man's pocket. It does not yet apply to money. That is the Ark of the Covenant, the Holy of Holies of the Slave Civilisation. Those in authority know well the danger. It might have consequences to humanity graver and more fundamental than freedom of belief. It might lead to economic freedom, the tap-root of all freedom, worth the name.

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"lowest strata" of the population, and the well-to-do are becoming less and less prolific, so that we shall end by—— but it is difficult even for the eugenist to say how we should end if that were so. The answer to all this is that even greater changes are already knocking at the door. Science is revolutionary, though scientific men are not, nor are revolutionaries scientific.

To the overwhelming majority of people, democracy, if it can put its house in order in time, will appear as far preferable to any other form of government, whether an autocracy, aristocracy, plutocracy, military dictatorship, or any combination of these. It is premature to condemn a system of government which is not the real government. The most important change that it is possible for a nation to suffer, that its monetary system should be surrendered to and become the monopoly of the money-lender, has taken place in this country without the public being aware of it, and without the matter being a political issue at all.

The way lies open for a real democracy with opportunities for all to live an ample and civilised life. Judging from the rapidity with which those whom science has already enriched have managed to efface the sins and shortcomings which they condemn in those less fortunate than themselves, possibly the eugenist is mistaken in his insistence on the influence of heredity and his neglect of the importance of economic environment on human character and worthiness. Unless the wealth of the world is used in the attempt, at least, to elevate the general level

of humanity to something of the standards of thos whom it has already elevated beyond the fear c want, there can be no serious question that it wi be used to destroy it. If we are doomed to fa either way, the first way seems the more rationa and inspiring. If the world cannot be made sa for Democracy it seems impossible that it can b made safe at all. Dictatorships and autocratic ru offer no final solution of the real problem, the wi consumption of wealth.

The betrayal of Democracy was originally du to ignorance. To-day it would probably be truer t say that fear and distrust of the people are responsib for the real economic strangle-hold of money beir left in private hands. Parliament would not da openly to do the deadly work that has been goir on since the War. It shelters itself behind the ple of impotence. "The grim goddess of Financ exercises, as she always must, an inexorab power."

So that is all it has been for! In place of the o grim reality which science has abolished, the pol ticians have been successful to the extent of creatir a new grim deity—a counting goddess who, l counting below the level where there is anything count, can hit recalcitrant humanity below the be in the comforting assurance that there will be litt there to hit. This algebraic paragon is supreme understanding the profound social significance the transcendental truth that minus one is plus on compared with minus two. It can make even sa men believe that poverty and despair are the norm

and natural consequences of over-production and superabundance.

This is no exaggeration, but the authoritative view. Power and responsibility seem to dull men's wits. No less a person than the late Premier asked the celebrated question "What is the use of making goods if we cannot sell them?" when an ordinary man would have asked "Why cannot we sell them? What is money for?" To the ordinary man, if a business is incapable of doing its job it is the obvious course to replace it by one that can. But to the man in control, when money fails to do its job, there's an end to it. The whole financial system of this country is so rotten that it cannot face a genuine enquiry. At present it is costing the nation over a hundred million pounds a year in bogus taxation for not doing its job, the distribution of the goods the country can make and does need.

As the "foreman" type might well scorn any lesser weapon than brute violence and misery to get the roughest jobs put through, so the democratic ruler has to have something behind him more effective than the silvery tongue of oratory when it comes to getting the world's work done. It is all so natural. Yet some of the hardest and, at the same time, most disgusting work of the community,—that of hospital nurses, as one example,—is done voluntarily as a necessary and benevolent public duty with but little financial inducement. If it did nothing else that was good surely the Great War established that the spirit of Democracy deserves better than this of its ostensible rulers.

This age of misers and misery has, perforce, had to divorce youth from political power for the century past. The inverted top-heavy condition of a world, engaged in the amassing of debt, cannot safely be entrusted to the young and rash. It requires experience, wisdom, compromise, diplomacy and very skilful balancing. The young readily reorientate their minds to new conditions. The old, at best, apply forty years too late those they had arrived at in their youth, and these, more often than not, are mere pitiful efforts to mould the hated new into the pattern of the beloved old, rather than anything adequate to and worthy of the age. It has been wittily said by Professor de Madariaga, that so long as there is death there is hope. But it is clearly asking impossibilities of the world that it should stand still and give its leaders time to catch up with it.

So far as contemporaneous politics have any reality or applicability to the mode of life of the modern world, it can only be to the mode of distributing wealth. The politicians, like the economists, lawyers and bankers, are usually tyros in the science of creating wealth. It would seem that there are broadly two possible methods, by no means mutually exclusive, by which the revenue available for the maintenance of life may be distributed. We may follow our present tendency of trying to make distribution, like production, communal, of providing State services for education, old-age, sickness, housing, etc., out of taxation, in addition to the necessarily communal services, until taxation becomes the regular method by which the revenue is distributed.

We so, at most, provide some people out of other people's pockets, not with what they want themselves; but with what the good government is graciously pleased to think necessary for them, much as a slave-owner looks after his slaves, or a farmer his cattle; and we expect individuals, as before, to continue to supply all the capital.

No one seriously defends such a method, except as a mere temporary alleviation of evils none of which are necessary or natural, least of all in an age which has seen the solution of the problem of production. Alternatively, we may follow the methods, outlined in the preceding chapter, of distributing larger money incomes, leaving the individual free to choose what he thinks best.

The continuous struggle to maintain the decencies of existence against the forces tending to enslave and submerge them since the beginning of the industrial era, has developed among the rank and file of the industrial army a team-spirit unknown as yet among the well-to-do as a class and with obvious resemblances to that in the professions of law and medicine. They also, if not their vocal champions, naturally have more actual realisation of the nature of the processes by which wealth comes into existence, and what it costs in human-being-hours to produce, than the mercantile, financial and professional elements of the community to whom such considerations are but figures and symbols.

They should not long remain under the general misconception that the expropriation of the incomes of the well-to-do to provide their needs is socialistic.

It is enslaving and demoralising rather than
berating them, and, at most, shifts the ownership
f capital from one individual to a number of often
ess-desirable masters. Practical Socialism, as the
ational ownership of the means of production,
listribution and exchange, requires national or
overnment saving or thrift rather than government
xpenditure on the maintenance of individuals.
All that is being spent on the alleviation of poverty
and distress is taking them further from rather than
nearer to their goal. So far, Labour in power has
out followed the path of least resistance leading
nowhere. By expropriatory taxation, it obtains and
pends as revenue what in a Socialistic Common-
wealth it would have to spend on capital. In this
of course it is opposed by the older parties who, in
power, do the same to even greater extent, because
unopposed.

So it is with the restriction of output by the Trade Unions, the attempt to make a day's work last a week, the putting of sand, instead of oil, into all the wheels of the industrial system. They are taking us further from Socialism, and the goal to economic freedom lies in an opposite direction. These are the roads to national impoverishment and demoralisation, and Socialism is no more possible to an impoverished and demoralised nation than it was in the age of scarcity.

If it is to come in our time, not only the money barrier, but every other barrier to full and efficient production must be swept aside, so that there may be at once an ample revenue and sufficient for the

provision of new as well as for the redemption of the old capital. To such an age, freedom might be something more than a wish or a name to the many. The standards of professional service, the morale of the officers and men of a great army, the solidarity and loyalty of labour, developed in the hour of its trial, must be the principles the world must rely upon, if it is ever to give up its belief in the efficacy of want, fear and greed. Education for wealth is the only hope left for the race.

Yet it is idle to attempt to appear even optimistic. The old regime has left behind its heritage of deep demoralisation and revolt. The present generation of labour are preparing for Armageddon when they should be educating themselves for the Promised Land. As though the forces making for destruction were not already powerful enough, they increasingly tend to be wreckers and look to no other way out but a revolution. No doubt this will appear monstrous and treasonable to those to whom the inexorable laws of economics have been kind, but to the professional economist it must appear as the most beautiful and convincing demonstration of the fundamental principles upon which he has founded his subject, in directions at first overlooked.

The greatest obstacle to all reform at present come not from the "True-Blues" and "Die-Hards" but from the natural drift of Labour towards revolution. Those most vocal on the subject of the wrongs of the poor and exploited have vested interests in their continuance and growth. "Monetary reform will rivet the chains of wage-slavery and capitalism

n the workers for another hundred years." Something like this would now be effectively said of every real, as distinct from sham, reform. They seek to end rather than mend the system, and in this they are likely, as has been indicated, to find recruits in very unexpected and powerful quarters.

Meanwhile those who have believed in the people and the ultimate triumph of the democratic idea have small cause for hope. There is little evidence of any enthusiasm for or interest in what the future may have in store. No one would conclude that, since the last war, the nations have been engaged in a race against time. Rather Democracy seems stunned, pole-axed by the last blow and awaiting the next, disillusioned, cynical and frankly infidel, but knowing no other way.

The march of events has put the world out of its focus. The froth of wordy battle and the clap-trap of the hustings, no more than the issue of the last great conflict, now decide anything at all. Heroes and their worshippers occupy the stage as fancy-dress mummers detected by the cold eye of dawn. The issues have been shifted from the personal and emotional spheres in which the qualities of men have evolved to that of the intellect and understanding. Ideas are at war rather than nations and men.

Clear thinking, independence of judgment, sanity, ability to grow up mentally and take a road that is strange and new to history, in the teeth of all precedent and authority, are the qualities of the pioneer rather than the many, and now they are being

demanded of the many. Will Democracy stand the new test? The dangers that crowd in upon it come from behind, but straight ahead the way still lies open. Can it steer the straight course? Nowadays the individual may, at most, be a lone signpost to the many. They must blaze their own trail.

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by

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MR. BARTLETT has been the London Representative of the League of Nations since 1922. After serving in the European War he turned to journalism, first in the reporters' room of the *Daily Mail*, then with Reuter's Agency (at the Paris Peace Conference), then as Paris Correspondent of the *Daily Herald*, and lastly, for three years, as Special Correspondent of the London *Times* in Switzerland and Rome, with intervening periods as correspondent with the Polish army during the war against the Bolshevists in 1920, in Germany during the Kapp Putsch, etc. etc.

Since January 1928 he has given a weekly radio talk from all British stations on international affairs under the title of "The Way of the World". These talks have, *according to the official pamphlets of the British Broadcasting Corporation, "made him one of the most popular microphone personalities in the country".* He has lectured a good deal in the British Isles and, during 1930, in Sweden, Denmark, and the United States.

MR. BARTLETT's name and standing are a sufficient guarantee of the interest and importance of this book. "Its object," he says, "is to make the reader realize that foreign affairs can be interesting and important to him in his everyday life." The reader will find that the author has succeeded in the most convincing manner.